MANITOBA BUDGET HIGHLIGHTS 1989

JUNE 5, 1989

Hon. Clayton Manness
Minister of Finance
Province of Manitoba

A BUDGET FOR ALL MANITOBANS

The 1989 Manitoba Budget shows the progress which this Government has made in the past year in bringing good management and fair taxation back to Manitoba. The Budget reaffirms our commitment to Manitobans to protect vital services such as health care and education, while at the same time reducing taxes.

When this Government came to office it inherited many problems. A succession of annual deficits had caused the Provincial debt to soar. An unfair burden of taxation was making the economy uncompetitive.

We have succeeded in cutting the deficit over two years by 70% and in reducing the Provincial debt for the first time in [illegible] years. At the same time, this Budget provides significant enhancements in Government programs. Health and education, for example, will receive 7% more funding than last year.

The Budget also provides over $60 million worth of income tax reductions for Manitobans. The personal income tax rate will be reduced and families with children will receive additional tax savings. Manitoba employers will benefit from another reduction to the payroll tax. Not only do these tax reductions bring relief to Manitobans, they help to restore an economic environment which encourages private investment and the creation of new, lasting jobs.

As part of improving the management of the Province, we are establishing the Fiscal Stabilization Fund to protect programs in years when revenue growth falls below normal levels.

This Budget brings lower taxes, improved services and a new commitment to effective management. I believe that it meets the needs of all Manitobans and helps us prepare for the decade ahead.

Clayton Manness
Minister of Finance

PROGRAM HIGHLIGHTS

■ HEALTH

- $1.5 billion to fund Manitoba's health care system, an increase of almost $100 million from last year. This increase includes:
  - $54 million more for Manitoba's hospitals.
  - $13 million more for personal care homes.
  - $11 million more for Pharmacare.
- Creation of a Women's Health Directorate.

■ EDUCATION AND TRAINING

- $857 million to support schools, post-secondary education and training programs to provide more opportunities for Manitobans.
  - $13 million more for Manitoba's universities.
  - $37 million more for the private and secondary school system.
  - Independent schools will now receive 50% of the per-pupil grants available to public schools.

■ FAMILY SERVICES

- $491 million for services to aid and protect Manitoba families.
  - $6 million more for day-care services.
  - $1.5 million more for programs to help prevent wife abuse.

■ AGRICULTURE AND RURAL DEVELOPMENT

- Continuing support for Manitoba farmers and rural communities as they recover from the worst drought in 50 years.

- $15 million for the Education Tax Reduction Program for Farmers to reduce school taxes on farmland by 35%.
- $1 million for a new federal-provincial soil conservation agreement.
- $8 million more for an enhanced program of highway and road construction.

■ ENVIRONMENT

- A new department, with a broadened mandate and a 10.6% funding increase, reflects the importance of environmental protection.
- A new Environmental Protection Tax will encourage recycling.

■ ENTREPRENEURIAL SUPPORT

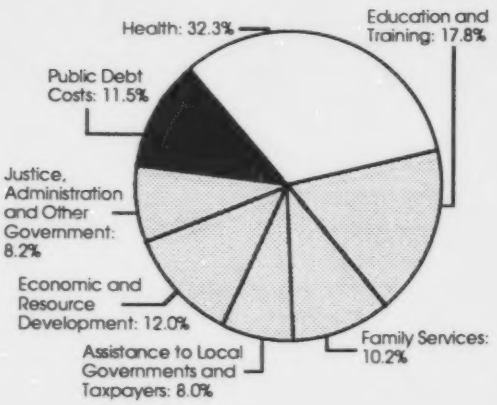
- $38 million for programs to encourage trade, investment and the formation of new business enterprises.
- Establishment of the Manitoba Business Start loan guarantee program to help women and rural residents form new businesses.
- Introduction of the Vision Capital Fund to provide venture and growth capital to promising Manitoba businesses.
- A further reduction to the payroll tax, exempting one-third of employers still paying the tax.

■ JUSTICE

- $11 million extra to provide extended services and to clear up backlogs in the court system and the Land Titles Office.

Provincial Expenditure, 1989/90

Major Categories
Per Cent of Total Budget


Health: 32.3%
Education and Training: 17.8%
Public Debt Costs: 11.5%
Justice, Administration and Other Government: 8.2%
Economic and Resource Development: 12.0%
Assistance to Local Governments and Taxpayers: 8.0%
Family Services: 10.2%

PROGRAM SPENDING

(Millions of Dollars)

Health	$1,557
Education and Training	857
Family Services	491
Assistance to Local Governments and Taxpayers	384
Economic and Resource Development	578
Justice Administration and Other Government	397
Total	**$4,264**

REVENUE HIGHLIGHTS

■ PERSONAL TAX REDUCTIONS

- Personal income tax reductions worth $61 million.
- A two-point cut in the income tax rate.
- The Manitoba Tax Reduction for each dependent child will be increased from $50 to $250 this year.
  - The reduction for each disabled dependent over 18 will also increase to $250.
  - A taxpayer with a net income of $25,000, supporting a spouse and two children, will save $441.
  - 25,700 more taxpayers will be exempt from the Net Income Tax.

■ BUSINESS TAX REDUCTIONS

- Payroll tax reductions worth $24 million.
  - The exemption from the tax will be doubled to $600,000.
  - Partial reductions will apply to employers with payrolls between $600,000 and $1,200,000.
  - Over two budgets the tax has been eliminated for 70% of the taxable employers in the Province.

■ ENVIRONMENTAL TAXES

- To protect the environment and encourage recycling an Environmental Protection Tax will be put on non-deposit alcoholic beverage containers effective August 1, 1989.
- To encourage Manitobans to use less-polluting fuels, the tax preference for gasohol produced in the province will be increased from 2.5 cents to 3.5 cents per litre.

Other minor tax increases include:

- The Gasoline Tax will be raised by 1 cent per litre, effective September 5, 1989. Diesel fuel for off-highway uses will be taxed at the same rate as on-highway fuel.
- The Tobacco Tax will be increased by 1 cent per cigarette effective July 9, 1989. Rates on fine-cut tobacco will be increased to 4.3 cents per gram.

FISCAL STABILIZATION FUND

When it comes to budgeting, governments have many of the same problems as families do. It's important to have stable income to cover expenses and to be able to plan for the future. If there is extra income one year families can bank a portion to meet future needs. Governments, too, have both immediate and long-term spending needs, and revenue can fluctuate from year to year.

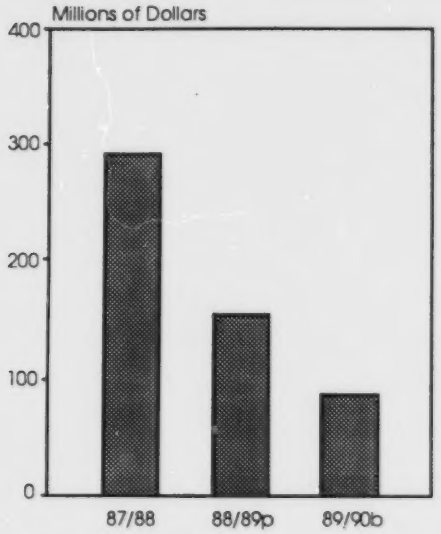
Manitoba will establish the Fiscal Stabilization Fund to smooth out revenue fluctuations. Last year Canadian growth was stronger than expected and brought exceptional revenue to the Province by way of federal transfers. Our own mining industry contributed more taxes than anticipated. Through sound management Provincial spending was well under budget. Two hundred million dollars of the resultant revenue has been deposited into the Fiscal Stabilization Fund so that it may be withdrawn to pay for vital programs in future years when revenue flows are low.

Putting away exceptional revenue in a kind of "rainy day fund" will help ensure that vital services are protected for the future.

FINANCIAL POSITION

The Government has brought effective management back to the financial affairs of the Province. Debt costs have been controlled. A borrowing strategy which has lessened the Province's vulnerability to foreign currency fluctuations has produced impressive results. Provincial spending has also been brought under control. The evidence of the improvement is the falling deficit...now at its lowest level since 1980.

Manitoba Deficits



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1989/90 BUDGET

(Millions of Dollars)

Budgetary Expenditure	$4,766
Total Budgetary Revenue	4,679
DEFICIT	$ 87

THE 1989 MANITOBA BUDGET

The Honourable Clayton Manness
Minister of Finance
Province of Manitoba

THE 1989 MANITOBA BUDGET ADDRESS

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THE 1989 MANITOBA BUDGET

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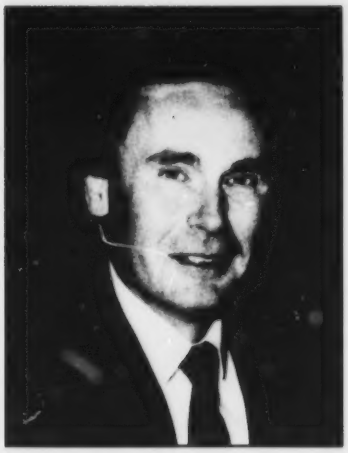


Mr. Speaker:

I am pleased to present our Government's second Budget to the Legislative Assembly and to the people of Manitoba. Today I will review our record of management during our first year in office...and outline the fiscal plan for the year to come...a plan which will guide this Province into the next decade.

The 1990s hold enormous promise for Manitoba. Our great natural advantages will allow our Province to attain new heights of opportunity and prosperity. As we plan for the decade ahead, we are guided by the principles of sustainable development...the understanding that growth must meet environmental and social standards, and provide economic benefits. We must learn to use all our resources—financial, environmental, and human—carefully and responsibly.

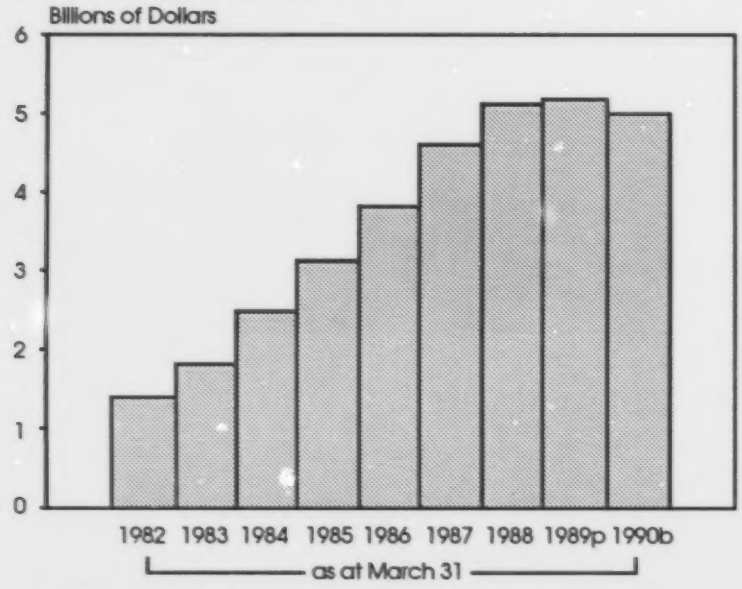
We are confident that Manitobans will be able to meet the challenge.

As I said last year:

> "Our goal is a competitive and diversified economy which will provide increased investment and job opportunities for our citizens, and pay for quality health, education and social programs."

The fiscal plan which I will outline today shows our continuing strong commitment to social programs and natural resource development. It shows, too, our equally strong commitment to rebuilding a Provincial economic environment which is conducive to private investment and meaningful, long-term job creation. And, it shows how control of the Province's finances has been regained. The deficit will be the lowest this decade. General Purpose Debt will decline for the first time in twenty years.

Net General Purpose Debt



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We have only to think back to conditions 13 months ago to realize the progress that has been made. Around the Province now, there is a sense of change, a new spirit of optimism about the future.

Manitobans recall the succession of escalating deficits, the massive build-up of debt and major tax increases. By the end of 1987/88, total Net Direct and Guaranteed Debt surpassed $10.3 billion. Manitoba was saddled with a tax regime unfair both to individuals and to the business community.

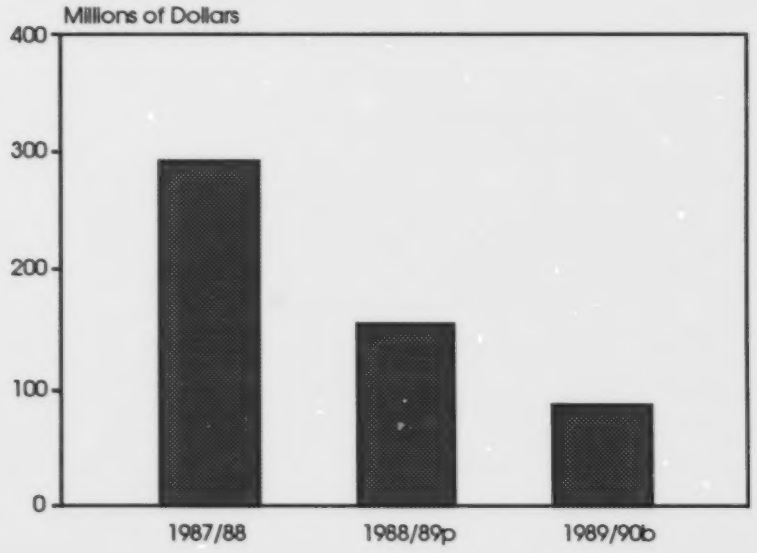
By 1987, the damage had become evident in the Province's economic performance. Economic growth had slowed. Investment declined.

Upon coming to office, our Government made a promise to Manitobans to bring good management back to the affairs of Government, and thereby rebuild confidence within our great Province. At the same time we made a commitment to preserve the high standard of services which Manitobans expect.

We did not underestimate the magnitude of the task. We approached the challenge in a systematic manner and our approach has already produced results.

Over the past year, spending, particularly debt costs, came in well under budget. Other revenues have been higher than anticipated, and we have benefited from increased federal transfers. The deficit has been nearly cut in half from $299 million in 1987/88, to $152 million last year. This year, the deficit will be reduced further, to $87 million. Later in this Address, I will discuss our strategy for long-term fiscal management.

Manitoba Deficits



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Most Manitobans know we have begun the process of restoring fairness and stability to the taxation system in this Province. In last year's Budget, we provided tax relief to Manitobans by freezing personal income taxes, and by ensuring that taxpayers received the full Provincial benefits of federal tax reform.

This year, we will do more.

Our Government does not believe in taxing jobs. Last year, we eliminated the payroll tax for half the taxable employers in the Province. Further reductions will be made this year. By easing the burden of the payroll tax, we are improving the climate for private investment and job creation.

Our primary objectives as a Government have been to protect services to people, and to provide tax relief while reducing the deficit. To accomplish these objectives, we have placed great emphasis on bringing more effective management to the operation of Government.

Government departments have been restructured. A stand-alone Department of Environment has been established, demonstrating the importance we place on environmental protection and sustainable development. A new Department of Rural Development will provide a more co-ordinated and pro-active approach to economic development and diversification initiatives. And, in recognition of the need to better support family life in this Province, a new Department of Family Services has been formed. The new departmental structures and more rational grouping of programs, will result in increased operational efficiencies and in better services to the people of Manitoba.

Other measures have been taken to improve program delivery. The Independent Review of Government Management Practices has produced a wide range of recommendations, which have been implemented or are now under further review. The focus of many of these recommendations has been on improving standards of accountability, both within Government and between Government and the external agencies which it funds.

Action has been taken to improve the operation of the Crown corporations. In the past, Crown corporations were often perceived as being insensitive to public concerns. The Crown Corporations Public Review and Accountability Act passed in the last Session of the Legislature is a major step toward reasserting the primacy of public interest in the functioning of the Crowns. The new Act requires regular reporting of financial information and other accountability measures.

The role of individual Crown corporations has been examined. Those which no longer properly serve the public interest are being wound-down or transferred to the private sector. But, these transfers will be undertaken so as to ensure the best possible return in terms of compensation and of economic development activity.

The sale of Manfor Ltd. to Repap Enterprises Inc. is, in many ways, a model divestiture. The sale agreement meets the Government's preconditions for disposal of the forestry complex. First, it relieves Manitoba taxpayers from the obligation of supporting what had long been a money-losing enterprise. The sale will preserve the existing 850 Manfor jobs and will create at least 350 new jobs in the region, as well as the economic prosperity which goes with them. The sale also brings a fair price to the people of Manitoba. This agreement is an important step in bringing investment and environmentally sound economic development to Northern Manitoba.

Since coming to office last year, we have brought a new approach to governing, based on principles of effective management and rational decision making. Both Opposition Parties tried to scare Manitobans into believing that we would cut the services on which they depend. This has not happened. This will not happen. Instead, we have maintained and strengthened social programs.

Health care, the cornerstone of our social programs, has been strongly supported, allowing the construction and renovation of facilities in all parts of the Province. Education funding has been increased including more money for universities, public schools, and independent schools. More flexibility has been built into the Province's child care system. More resources have been put into the critical area of child protection and family services. Action was taken to help Manitoba farmers weather one of the worst years in recent history.

Progress has also been made in honouring the unfulfilled commitments of previous administrations. Over $11 million has been put toward meeting Manitoba's responsibilities to northern communities under the Northern Flood Agreement.

Meeting existing program obligations is a critical part of Government's responsibility. But, planning for the future is also essential. Therefore, our Government has undertaken an extensive process of review and public consultation to help shape new policy directions. Health care, women's concerns, literacy, child care, aboriginal justice and constitutional reform are all issues of great importance to Manitobans. In light of that importance, we have actively sought public input on these issues. The results of these consultations will be reflected in important initiatives in this and future Budgets.

ECONOMIC CONTEXT

Manitoba experienced the worst drought in more than fifty years last year. However, a number of sectors showed significant growth.

The mining industry led the way. Mineral production increased 68% in 1988 to $1.7 billion. Nickel production recorded the largest increase—up 170% to $1.1 billion.

There was improvement, too, in the manufacturing sector. Shipments increased 5.8%. Employment increased by 12.5% and in 1989, investment is forecast to increase 46%.

The pain of the drought was felt throughout the economy. It cost Manitoba's Gross Domestic Product over $300 million, and held real growth to under 1%.

Improved international prices for grains and metals, however, contributed to an 8.3% increase in total nominal GDP, to $21.6 billion.

Population growth slowed for the fifth consecutive year in 1988. In recent years, B.C. and Ontario have drawn population from most other provinces. The increase in net interprovincial migration in the second half of 1988, from both Manitoba and Saskatchewan, underscores the impact of the drought and the importance of agriculture to the overall health of the Prairie economy.

High interest rates have exerted major pressures on household budgets, on farm and business operating costs, and on investment spending intentions throughout Manitoba and Canada. In the aftermath of the 1988 drought, Manitoba's economy is far from being overheated. High interest rates have added to the difficulties Manitobans face in restoring a competitive, healthy economy.

OUTLOOK

The Canadian economy is slowing. The recent federal Budget forecast real growth of 3.0% in 1989 and 1.7% in 1990. Unemployment is expected to rise across Canada.

In April 1989, unemployment rates in seven of the ten provinces were higher than a year earlier. Manitoba's rate was 7.8%, third lowest in the country.

Prospects for overall growth in the Provincial economy in 1989 are tied in large part to a recovery in agriculture. A full recovery in agricultural production would add 1.5% to real growth in the whole economy.

Non-residential investment is expected to increase by over 14% in 1989. A strong increase is expected in the manufacturing sector, and the finance, insurance and real estate industry will more fully realize its potential in Manitoba.

Manitoba's growth over the next two years is likely to exceed the national average. Real growth of 3.5% in 1989 is currently projected.

Manitoba Outlook at a Glance

	1989	1990
	(Per Cent Change Except as Noted)	
Gross Domestic Product		
Nominal	6.8	5.7
Real	3.5	2.0
Real (Canada)	3.0	1.7
Employment	1.2	0.8
Unemployment Rate (%)	7.6	7.7

Manitoba is well-positioned for significant economic growth. Our central location, rich natural resources, diversified industrial base and well-developed transportation sector give us considerable advantage in attracting new investment. Manitoba has the added benefit of an affordable cost of living.

Manitoba's natural advantages for growth, in combination with careful management of our Provincial financial resources, provide a promising outlook for the future.

EXPENDITURE

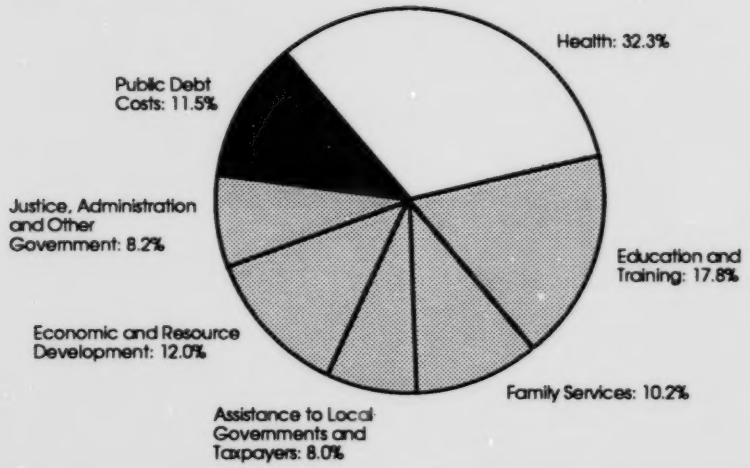
Earlier, I reviewed the record of the first year of our Administration—protecting essential services, lowering deficits and reducing taxes. This Budget, together with the Main Estimates of Expenditure, outline the course we have charted to continue the progress achieved so far.

The Budget allocates $4.3 billion to maintain important programs and services for Manitobans, an increase of $219 million.

Provincial Expenditure, 1989/90

Major Categories

Per Cent of Total Budget


Health: 32.3%
Public Debt Costs: 11.5%
Justice, Administration and Other Government: 8.2%
Education and Training: 17.8%
Economic and Resource Development: 12.0%
Family Services: 10.2%
Assistance to Local Governments and Taxpayers: 8.0%

These resources will help maintain and improve the quality of life of Manitobans throughout this Province. Manitobans recognize that they enjoy a high standard of public services. They want assurance that those benefits of citizenship in our Province will be available, not just now, but in the future. Effective management, reform and improvement in program delivery are important. We must achieve the highest standard of health, education and social services on an affordable basis to Manitobans. We must operate within a fiscal framework which protects the future provision of these services.

Health and Education

Health and Education remain the central priorities of the Province. Together they receive $2.4 billion, over 50% of the Budget. Health receives an additional $99 million, while Education and Training receives an additional $57 million. Overall spending authority for each Department, including anticipated salary increases, is up over 7%, more than one and one-half times the inflation rate, reflecting the importance we place on these programs.

This Budget meets our commitment to preserve and enhance the health care system in the Province. Included in the total expenditure of over $1.5 billion is:

- $54 million more for the operation of Manitoba's hospitals;
- $13 million more for personal care homes; and
- $11 million more for Pharmacare.

Funding for the ambulance program, now over $5.4 million, has more than doubled, reflecting the implementation of a revised funding formula. This formula will improve the accessibility and equity in the ambulance system.

The community-based health care system will continue to be supported and enhanced. The home care program will receive an additional $4.3 million, an increase of almost 10%. The Support Services to Seniors Program, which funds external agencies providing valuable support to our senior citizens, will receive a 20.6% increase. In addition, the Mental Health Services Division has been reorganized to increase the focus on community-based programming.

The Health budget also provides for a new community-based Breast Cancer Screening Program and the establishment of a Women's Health Directorate.

Funding increases have also been provided to health care facilities to provide for enhanced services in the highest priority areas. This includes increased funding for surgical room time and speech and audiologist services at the Health Sciences Centre, ultrasound services at the Misericordia Hospital and hemodialysis in Brandon. The Manitoba Cancer Research and Treatment Foundation at St. Boniface Hospital will receive an increase to help it become a world-class facility recognized by the World Health Organization.

The new Department of Education and Training will play a more vital role in communities throughout this Province. It will help prepare Manitobans of all ages to take advantage of beneficial opportunities. We believe education is a lifelong process. The Province's universities receive a total funding increase of 7%, the largest in six years. The primary and secondary school system receives an additional $37 million, an increase of 7.8%. Independent schools receive an additional $5 million. This brings funding levels to 50% of public school per-pupil grants, and includes provision for students with special needs.

Family Services

Our Government places great importance on improving services to Manitoba families. Therefore, funding for the Department of Family Services will be increased by 9.1%, to $491 million this year. This includes provision for increased assistance under existing programs, and for new initiatives. Plans include:

- $6 million more for day-care, including $600,000 through Education and Training for expanded training for day-care workers;
- $2 million more to enable the Province to assume total responsibility for the provision of social assistance to sole-support parents;
- $1.5 million more for programs to help prevent wife abuse and to assist its victims.

Rural Development and Agriculture

Rural communities in Manitoba have been hard pressed in recent years by low farm prices, drought, and interest rates. Thankfully, recent rains have helped crops get a good start. But, international markets remain difficult, and farmers continue to feel the effects of high interest rates.

Rural water supply remains a vital concern. Last year, over $17 million was provided in emergency drought relief and drought-proofing measures. The Government will continue efforts to assist farmers and rural communities to reduce their vulnerability to future threats to water supply.

Direct ongoing support to farmers will continue through the Manitoba Crop Insurance Corporation, the Manitoba Agricultural Credit Corporation, and through development, marketing and regional services along with the expanded Income Insurance Fund. The Budget includes $1 million for a federal-provincial soil conservation agreement.

Over the years, a stronger consensus has emerged on the need for reform of the property tax assessment system in Manitoba. The present system has too many inequities. Local governments must have an adequate tax base from which to provide services, and the assessment system must be fair to local ratepayers. This year, our Government expects to proceed with reform.

Our Government remains committed to the removal of provincial school taxes from farmland as part of assessment reform. Last year, we introduced the Manitoba Education Tax Reduction Program for Farmers, providing a 25% across-the-board reduction in school taxes on farmland in the Province. This year, the Program is expanded to reduce the school tax bills of farmowners by 35%.

An enhanced highway construction program, enhanced street reconstruction and a new municipal bridge replacement program will be undertaken.

The Economic and Regional Development Agreements have been a positive force in strengthening Manitoba's economy. The Budget includes provision for a Provincial commitment of $38 million to sustain joint federal-provincial economic development efforts.

The Premier has led the fight for fair and sensitive treatment for Manitoba on the issue of Canadian Forces Base closures. In defence spending, the federal government has a powerful opportunity to further national goals for regional development, endorsed by all First Ministers, while at the same time meeting essential military objectives.

One of the Government's priorities is a southern development initiative focussing on rural Manitoba. In this endeavour, the Province hopes the federal government will be a full and active partner in a vital program to further rural development and diversification.

Environment

Our commitment to environmental protection is demonstrated by the establishment of the Department of Environment with a 10.6% funding increase. The additional resources support the Department's broadened mandate under the new Environment Act and the Dangerous Goods Handling and Transportation Act, as well as increased licensing and compliance activities. I will be announcing additional measures to help protect the environment in the Taxation Section of my Address.

Economic renewal through sustainable development will be fostered with initiatives directed toward protecting water quality and natural resources, which provide so much of the enormous growth potential of the Manitoba economy.

Protecting the quality of the City of Winnipeg's water supply is a major priority. Working with the City, the Province has negotiated an agreement with the Shoal Lake Indian Band, conditional upon federal participation. The Provincial financial contribution of $3 million will assist in maintaining the quality of one of the best primary sources of water of any city anywhere.

Industry, Trade and Tourism

Initiatives to attract investment and encourage business activity in the Province are strengthened with a 6.9%, $2.5 million increase in programs through the Department of Industry, Trade and Tourism. This includes increased funding for health industry development, urban transportation development and tourism promotion and development.

New initiatives include the establishment of a Manitoba Centres of Excellence Fund, which will support research and development activity, and the provision of financial assistance to the University of Manitoba's Faculty of Management to implement its long-term development plan.

For Manitoba's small business sector to develop and grow, individual entrepreneurs need better access to capital. Our Government will implement the Business Start loan guarantee program announced in the Throne Speech. The program will provide guarantees on loans up to $10,000 made by financial institutions. A particular focus will be women and rural Manitobans starting new businesses.

In my 1988 Budget, I undertook to examine incentives to encourage more equity investment by Manitobans for the benefit of businesses in the Province. Our review indicated that there is a significant need to expand local sources of venture and growth capital and the associated management expertise.

The recently concluded Free Trade Agreement presents Manitoba entrepreneurs and businesses with significant new opportunities and challenges. To take full advantage of the new trading environment, new Manitoba businesses must be created, and established industries must be expanded and modernized.

These opportunities may not be captured if Manitoba's many early-stage and mid-sized enterprises do not have access to venture and growth capital. Accordingly, our Government will be providing up to $30 million in financing to establish the Vision Capital Fund in Manitoba. The new Fund will subsume the Small Business Growth Fund, and will be available for both innovative new ventures and expanding mid-sized businesses. Another objective is to attract entrepreneurs and businesses to Manitoba and help them develop and grow. This Fund will be administered in the private sector.

A Manitoba Stock Savings Plan will be established after a sufficient base of companies in a position to raise capital through public offerings has been developed through the Vision Capital Fund.

Department of Justice

Additional resources of $11 million, an increase of 8.2%, are included for the Department of Justice.

We are committed to better protection for the public through such measures as the recently announced impaired driving initiative.

The Land Titles Office budget is increased by 20% to reduce the time required to register land transfers. Additional funding of 8%, $1.6 million, for the Court Services Division will allow the Family Division of the Court of Queen's Bench to extend its services to the entire Province, and reduce backlogs in the court system.

The Energy Rate Stabilization Act

To date, Manitoba taxpayers have provided $323 million to insulate Manitoba Hydro from losses on foreign borrowing. We are moving to complete the process begun by the previous government in 1987 of disengaging provincial taxpayers from any further foreign exchange risk associated with borrowing for Hydro purposes. Legislation will be brought forward to terminate the Energy Rate Stabilization Act (ERSA) as of April 1, 1989.

The Province will accept liability for foreign exchange losses payable on this borrowing calculated at March 31 exchange rates. To cover these potential losses, $140 million has been set aside for Hydro. The Hydro Rate Stabilization appropriation increased by $64 million in 1988/89 as a result.

Based on current foreign exchange rates, the elimination of ERSA means lower debt costs and consequent savings for Hydro and the City of Winnipeg.

I am proposing to capture some of these savings for provincial taxpayers with a 10% increase in water power rental rates effective September 1, 1989. As well, in recognition of the value of the Province's guarantee of all Crown corporation borrowing, the Province's service charge on commercial Crown corporations will be increased by 1/8th of 1% effective April 1, 1990.

In combination, these changes provide a modest improvement in the cash flow position of Manitoba Hydro and the City of Winnipeg. The estimated net benefits in the 1990/91 fiscal year are over $2 million.

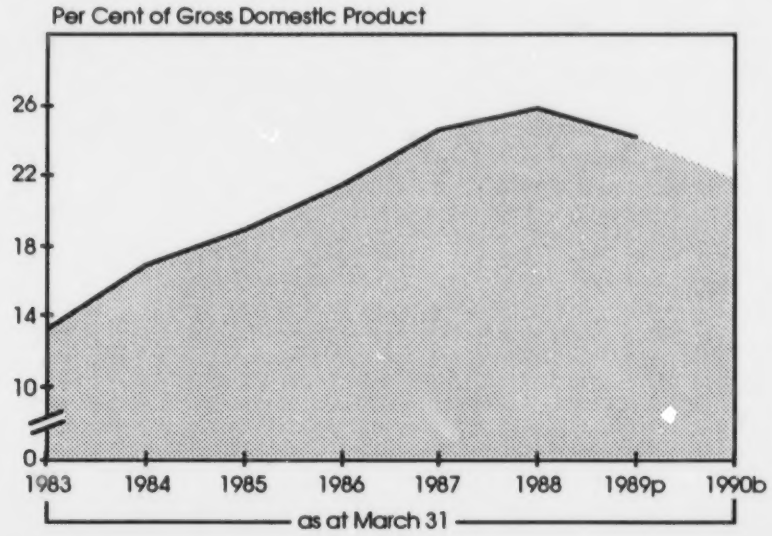
DEBT AND PUBLIC DEBT COSTS

Net debt for general Government programs more than tripled between 1982 and 1988. Interest costs quadrupled. Our Government pledged to regain control of spiralling debt and interest costs.

In 1988/89, sound fiscal management and favourable foreign exchange rates helped slow the growth of General Purpose Debt to less than 2%, and, to below growth in the provincial economy for the first time since 1980/81.

This is a major accomplishment and one which allows us to put increased revenue to work for Manitobans. In the past, when taxes were increased, much of the new revenue went to pay investors in Tokyo, Zurich or New York, instead of to provide programs for Manitobans.

Net General Purpose Debt



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We have taken advantage of the stronger Canadian and U.S. dollars to convert many of the Province's off-shore debt obligations into North American currencies. As a result of these transactions, primarily conversion of Swiss Franc and Deutsche Mark debt, future fluctuations in currencies will now have a significantly reduced effect on our debt service costs. The major benefit of this debt management strategy will occur when debt matures, if off-shore currencies are at similar or higher values than in the past three years.

This debt management strategy has successfully cut the non-North American portion of our total debt in half...to less than 10% from over 20% on March 31, 1988. The unamortized foreign exchange fluctuation has been reduced from $666 million on March 31, 1988, to $67 million at the end of 1988/89, primarily as a result of the strength of North American currencies and the recognition of ERSA liabilities. The success in converting off-shore debt will lessen the impact of future foreign exchange fluctuations. We intend to continue pursuing opportunities for converting even more foreign debt, when it is in our best interest to do so.

The Province's HydroBond issue is a further step along the path of repatriating debt. We want to put the interest we pay into the pockets of Manitobans. I am pleased that Manitobans have recognized this as a good opportunity to invest and have shown strong support for this bond issue.

TOTAL EXPENDITURE

Total expenditure is budgeted to increase 4.5% over last year's Budget, including increases of over 7% for both health and education.

REVENUE

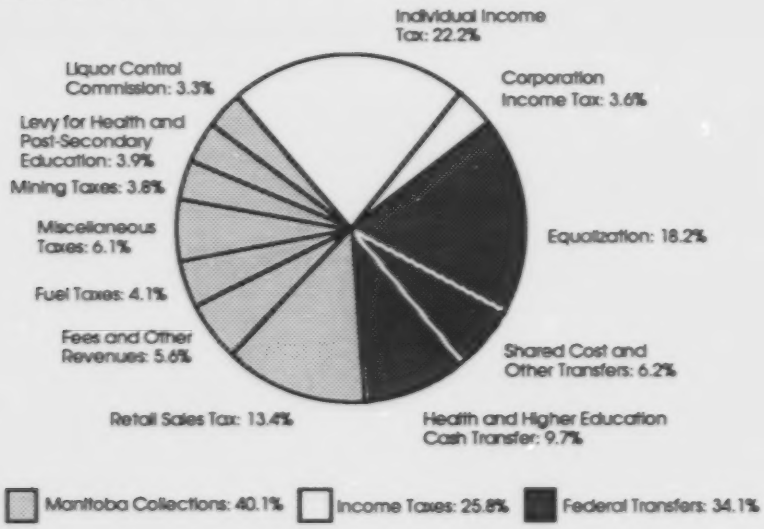
Revenue growth was strong in 1988/89. Own-source revenue growth was driven by strength in mining taxes and by tax increases implemented by the former administration. Federal transfer payments were boosted because the strength of the national economy over the past three years increased Manitoba's equalization payments.

Underlying revenue growth will moderate significantly in 1989/90. Growth will be modified as a result of the revenue measures I will announce today. Revenue in 1989/90 is projected to be $4.679 billion, 7.2% above 1988/89 budgeted revenue.

Provincial Revenue, 1989/90

Major Sources

Per Cent of Total


Individual Income Tax: 22.2%
Corporation Income Tax: 3.6%
Equalization: 18.2%
Shared Cost and Other Transfers: 6.2%
Health and Higher Education Cash Transfer: 9.7%
Retail Sales Tax: 13.4%
Fees and Other Revenues: 5.6%
Fuel Taxes: 4.1%
Miscellaneous Taxes: 6.1%
Mining Taxes: 3.8%
Levy for Health and Post-Secondary Education: 3.9%
Liquor Control Commission: 3.3%
Manitoba Collections: 40.1%
Income Taxes: 25.8%
Federal Transfers: 34.1%

Note: Totals may not add due to rounding

Federal Transfer Payments

Federal transfer payments are estimated at $1.595 billion in 1989/90, an increase of 1.7% over the amount received in 1988/89, but 14% over the 1988/89 Budget Estimate.

Equalization has been the primary source of federal transfer payment growth in recent years. As Manitoba's economic growth fell below the national average, our relative fiscal capacity fell. Equalization payments from the federal government increased significantly in 1986/87 and 1987/88. As more information became available on those years, substantial adjustment payments were made to Manitoba. These brought 1988/89 equalization receipts to $863 million, of which $111 million pertained to prior years. These figures reveal how poor our economic performance had been compared to other provinces.

As Manitoba's economic performance moves closer to national economic performance, growth in equalization entitlements moderates.

Federal funding for health and higher education has been constrained several times during this decade. Growth in these transfers continues to fall further behind growth in health spending. National economic growth and the equalization program have eased the immediate pressure on provinces. However, the unilateral reduction in growth in health and higher education transfers proposed in the federal Budget, further limits provincial capacity to provide funding in these areas. As provincial Health and Education Ministers stressed at their February meeting in Moncton, improved interprovincial and federal-provincial co-operation in the search for more cost-effective ways to provide programs is essential.

Taxation

Between 1982 and 1988, Manitobans experienced an unprecedented series of tax increases. When we took office, Manitoba's major personal and business taxes were at or near the highest levels among the provinces.

Manitoba businesses were increasingly disadvantaged in relation to their competitors in other jurisdictions. How many industries and jobs were lost because investors looked at Manitoba's tax regime and the deteriorating fiscal situation, and located elsewhere? Lost incomes and higher personal taxes meant that consumers had fewer dollars to spend, and local businesses suffered.

Our first goal is to restore confidence in Manitoba as a desirable place to live and to invest. Last year, we started to bring Manitoba's taxes back into line with other Canadian jurisdictions. Manitobans and people who want to invest in Manitoba must be assured of a competitive and stable taxation system.

After the tax increases introduced in the recent federal Budget, the need for tax relief has become more acute.

The fiscal progress achieved since last August enables us to introduce additional tax reductions this year. For the second consecutive year, tax reductions will exceed increases by a large margin.

Personal Income Taxes

Personal income taxes will be reduced by over $61 million, about 5% of Manitoba's personal income tax revenue.

I am particularly pleased to announce a significant tax cut for families who are supporting children. The Manitoba Tax Reduction will be increased from $50 to $250 for each dependent child. The reduction for disabled dependents over 18 will also be increased to $250.

This measure will reduce the income taxes paid by Manitoba families by $28 million annually. The tax saving is related to income, and benefits moderate- and middle-income taxpayers.

For a taxpayer supporting a spouse and two children, the saving is:

- $400 at $25,000 in net income;
- $300 at $50,000; and
- $0 at $65,000.

For a family of four, the Manitoba Tax Reduction fully offsets the 2% Net Income Tax up to $32,500 in net income. The enriched Manitoba Tax Reduction will now offset the entire Net Income Tax for an additional 25,700 taxpayers. We believe it is entirely appropriate that income tax relief should focus on families supporting children.

In addition, the basic Manitoba Income Tax rate will be reduced from 54% to 52%. This measure benefits all Manitoba taxpayers. It reduces income taxes collected from Manitobans by a further $33 million. And it moves top marginal tax rates in Manitoba closer to those in other provinces.

In combination, the tax cuts introduced in this Budget will reduce Manitoba income taxes by:

- $50 for a single senior citizen at $25,000 of net income;
- $82 for a single taxpayer under 65, earning $30,000; and
- $514 for a family of four at $40,000.

Impact of Manitoba Budget Personal Income Tax Cuts

(Married Taxfiler, Dependent Spouse, 2 Dependent Children)

Net Income	Tax Before Budget	Tax Saving		Total Reduction	
		Rate Cut	Child Reduction		
$	$	$		$	%
16,000	65	12	53	65	100
18,000	321	19	302	321	100
20,000	577	25	400	425	74
25,000	1,217	41	400	441	36
30,000	1,967	62	400	462	23
50,000	5,721	166	300	466	8
75,000	10,546	307	0	307	3
100,000	15,461	452	0	452	3

Along with other provinces, Manitoba has proposed an alternative to the current tax collection arrangements, including the 2% Net Income Tax, with the federal government. We value the benefits of streamlined tax compliance and administration provided through a single collection mechanism and tax return. The provincial proposals preserve the benefits of the unified income tax system, and allow sufficient flexibility to address the needs of their citizens. Provinces are now waiting for a federal response.

In the meantime, Manitobans will benefit from the reductions announced today. The two measures reduce personal income taxes for 470,000 Manitoba taxpayers, and remove over 8,000 Manitobans from the provincial income tax rolls altogether.

The reductions are retroactive to January 1, 1989. Manitobans will receive the benefits when they file 1989 income tax returns next spring. The lower taxation levels will also be reflected in source deductions beginning in January 1990.

Business Taxes

The payroll tax exemption will be doubled from $300,000 to $600,000 and reduced for employers with payrolls between $600,000 and $1,200,000.

Almost 1,400 additional employers, 36% of those now taxable, will be exempt from the payroll tax, and a further 900 will have their tax reduced. Only 1,600 filers, or 3.8% of the 43,000 employers on the tax roll, will continue to pay the full rate of tax.

In just two Budgets, we have eliminated this tax for 70% of the taxable employers in Manitoba.

These measures take effect January 1, 1990, and cut the payroll tax by $3.8 million in the current fiscal year, and by $23.6 million in 1990/91.

The special 3% Corporation Capital Tax on financial institutions was introduced by the former government to ensure that financial institutions made a fair contribution to public services at a time when they paid little or no income tax. As a result of federal tax reform, the income tax paid by these institutions is expected to rise significantly. Provided these expectations are realized, some movement on the capital tax may be appropriate.

The Canadian financial services sector is heavily concentrated in Central Canada. Honourable Members are aware of the high and rapidly escalating costs faced by businesses and their employees in Central Canada. If the taxes applied to this sector are set at fair and reasonable levels, I believe that Manitoba, and Winnipeg in particular, will be seen as an attractive alternative to the high-cost environments elsewhere.

Accordingly, I will be discussing the possibility of a conditional capital tax reduction with the finance critic of each Opposition Party. A conditional reduction could allow financial institutions, which after national tax reform pay significant income taxes, to reduce their effective Corporation Capital Tax rate to a floor rate of, say, 2%. Institutions which did not pay income taxes would continue to pay the full 3% rate.

I will wait with interest to hear the views of both Opposition Parties on such a proposal. I hope to be in a position to proceed with a measure along these lines later this year.

The 1988 Manitoba Budget indicated our intention to attempt to resolve anomalies in the allocation of Corporation Income Taxes co-operatively with the mining industry.

I am pleased to announce that the industry has responded positively, and expects to take appropriate steps to deal with the income tax allocation issue shortly.

However, in line with our discussions with the industry, and as an interim measure, a special 1.5% Mining Tax, with a sunset provision, will be imposed for 1989. It will be rescinded before the end of the year if the anomalies are resolved sooner.

This measure is expected to raise $13 million in the 1989/90 fiscal year.

Environmental Protection Tax

Our Government is committed to introducing significant new initiatives to protect the environment. To further reinforce these measures, we will introduce a system of taxes and charges on products which can be reused or recycled.

Within the alcoholic beverage sector, the current system of deposits and refunds has proven effective in minimizing waste and maximizing reuse and recycling. It is estimated that in excess of 95% of domestic beer bottles are presently returned. The deposit system on reusable soft drink bottles has shown similar success. However, reliance on non-reusable beverage containers with minimal effective recycling is continuing and, in some cases, growing.

This problem will be addressed directly, starting with non-deposit alcoholic beverage containers, effective August 1, 1989. This specific Environmental Protection Tax will be collected by the Manitoba Liquor Control Commission. The following rates will be imposed and collected as part of the current prices. The tax will be restricted to containers for which a deposit/return system is not in place.

Non-Deposit Alcoholic Beverage Container	Tax
Bottles less than 750 ml	5¢
Bottles 750 ml or more	10¢
Beer bottles	10¢
Aluminum and other cans	5¢

Funds collected will support environmental protection initiatives.

A discussion paper outlining this environmental protection initiative will be released by the Minister of Environment later this summer. Consultations will be undertaken with Manitobans on the initiative and on further development of the Environmental Protection Tax system.

Fuel Taxes

Transportation is key to economic activity in our Province. The Budget increases resources for highway construction to a record level. To help pay for these initiatives, the Gasoline Tax will increase by 1 cent per litre effective September 5, 1989. In addition, diesel fuel used off-highway will be taxed at the same rate as fuel used on-highway. This will eliminate the need for dual storage requirements facing contractors who use diesel fuel both on- and off-highway.

Marked fuel for farm consumption will remain fully exempt from provincial fuel taxes. As an additional measure of support to farmers, tax paid on aviation fuel used for crop spraying will be refunded.

To encourage the use of less polluting fuel, the tax preference for gasohol produced in Manitoba will be increased from 2.5 cents to 3.5 cents per litre effective September 5, 1989.

These measures are expected to increase revenue by about $8 million in 1989/90, and by $14.4 million in a full year. Again, all of the additional revenue will be used for highway and road construction in the Province.

Tobacco Taxes

The Tobacco Tax will be increased by 1 cent per cigarette effective July 9, 1989. Rates on fine-cut tobacco will be increased to 4.3 cents per gram. Legislation will be introduced to tax pre-portioned tobacco sticks equally with cigarettes.

These measures are expected to raise $14 million in 1989/90 and $21 million in a full year.

Other measures

Two amendments will be made to the Retail Sales Tax Act. The current sales tax exemption for purchases by Treaty Indians on reserves will be broadened to include telephone charges.

The tax rate on imported and domestic beer will be equalized at the 7% rate presently applicable to domestic beer. This measure will come into force concurrently with the application of the Environmental Protection Tax on non-returnable liquor containers. There will be no increase in liquor prices as a result. To assist the tourism and hospitality sector again this year, provincial mark-ups on spirits will not be applied to supplier cost increases.

The measures announced today deliver on our commitments to the people and businesses of Manitoba. They represent a significant step toward renewing confidence in our Province's future.

THE FISCAL STABILIZATION FUND

Long-term planning is an essential element of fiscal responsibility. Manitoba is now on course toward balanced budgets. However, provincial revenue can be subject to year-to-year volatility and, on the expenditure side, debt servicing costs vary significantly with financial market conditions.

When revenue growth is unusually high, deficits may be sharply reduced or even eliminated, giving rise to pressures for program spending or tax cuts on the basis of a single year improvement. Too often, neither added program spending nor tax cuts can be sustained in the longer term.

On the other hand, when revenue falls below trend levels, deficits escalate sharply, resulting in higher interest costs. And, there may be pressure to restrain or curtail program expenditure, more than appropriate for economic conditions, and not in keeping with the legitimate needs of Manitobans.

In 1988/89, overall spending was 1.5% below the amount budgeted, in large part due to decreased public debt costs. Exceptional growth was recorded in Manitoba's revenue primarily due to mining taxes, equalization payments and the full-year impact of tax increases imposed by the former government. Total revenue is currently estimated to have been $4.541 billion, that is, $502 million or 12.5% above the 1987/88 fiscal year.

We could have used all the exceptional revenue for long-term debt or deficit reduction in 1988/89. Indeed, we could have shown an overall budgetary surplus in 1988/89 of $48 million. However, we recognize the exceptional nature of this revenue and have chosen to apply it toward longer-term fiscal objectives.

Therefore, today I am announcing the Government's intention to establish a Fiscal Stabilization Fund. The Fund will cushion volatility in provincial revenue and assure a more stable basis for provincial fiscal decisions.

Two hundred million dollars of the exceptional revenue received in 1988/89 will be deposited in the Fiscal Stabilization Fund.

The Fund will be used as a fiscal shock absorber, helping the Province avoid disruption to programs or major tax increases. Withdrawals from the Fund may be made when revenue is constrained or there are exceptional expenditure requirements.

Government of Manitoba Expenditure, Revenue and Deficit

	1988/89	
	Budget	**Preliminary**
	(Millions of Dollars)	
Expenditure	4,561	4,493
Revenue		
Before Stabilization	N.A.	4,541
After Stabilization	4,365	4,341
Deficit <Surplus>		
Before Stabilization	N.A.	<48>
After Stabilization	196	152

Further exceptional revenue will be added to the Fund. For example, in 1989/90, the net proceeds generated by the sale of Manfor Ltd. will be deposited in the Fund.

This year, $50 million will be withdrawn from the Fund. The planned withdrawal offsets a portion of lower revenue growth in 1989/90, in part related to negative prior-years adjustments in revenue from federal sources. The Fund will provide the fiscal stability for the Government to maintain existing programs and services, while at the same time proceed with tax reductions appropriate to Manitoba's circumstances. Indeed, tax reductions might not have been possible at this time without the introduction of the Stabilization Fund.

A summary of the operation of the Fiscal Stabilization Fund is included in the Budget documents. Legislation will be introduced shortly to establish the Fund.

THE FISCAL PLAN

Last year I said:

> "My goal in 1989 will be to hold overall spending increases near the rate of inflation."

I am pleased to report that this year total budgetary expenditure is estimated at $4.766 billion, up 4.5% from the 1988/89 Budget. Manitoba's spending growth is the lowest of any provincial Budget presented this year.

Revenue is estimated at $4.679 billion, up 7.2%. The deficit, including both capital and current spending, at $87 million, is less than half last year's Budget, and the lowest total since 1979/80.

1989 Budget Plan

	1988/89 Budget	1989/90 Budget	Change
	(Millions of Dollars)		(%)
Budgetary Expenditure	4,561	4,766	4.5
Revenue before Stabilization	4,365	4,629	
Draw from Fiscal Stabilization Fund	-	50	
Budgetary Revenue	4,365	4,679	7.2
DEFICIT	196	87	<55.4>

The net debt for general Government programs is projected to decrease by $220 million during the year, the first such decline in twenty years. Total net debt, including borrowing for Crown corporations, during 1989/90, is expected to increase by $203 million. Total borrowing requirements amount to $1.555 billion, mainly for refinancing existing debt issues.

LONG-TERM FISCAL PLANNING

For the 1990/91 fiscal year, departmental projections suggest that in order to continue all existing programs, an increase in expenditure to just over $5 billion, or about 5% over this year's Budget, would be required. The revenue forecast shows revenue growth of about 2.5% over the 1989/90 Budget, which would bring the total to about $4.75 billion. I believe this is a conservative estimate, which reflects reduced transfer payment growth, a possible decline in mining tax revenue and the full-year costs of tax reductions announced in this Budget.

The deficit would be in the range of $250 million to $290 million. In these circumstances, a further draw on the Fiscal Stabilization Fund could be warranted to protect important programs for Manitobans, and to maintain the tax reductions announced in this Budget, as well as continuing the course of fiscal responsibility.

This Government is committed to providing Manitobans with more information on our fiscal planning. This is the first Manitoba Budget to provide an additional year's projection. The projection is of a preliminary nature. However, I believe the information is important to responsible discussion and decision making.

As governments shape their fiscal plans, they are affected by a variety of often competing considerations—the need to preserve a high standard of service, the need to provide competitive taxes, and the need to eliminate deficit spending. Longer-range fiscal planning is an essential tool this Government is using to balance those competing forces. In our Administration, departmental managers must pay attention to the long-term consequences of their proposals.

CONCLUSION

The Government will continue to take responsible action—action which will provide stability in the Province's fiscal affairs; action which will ensure that tax dollars are wisely spent on vital public services rather than wasted on ill-conceived proposals or squandered on interest payments; action which will reduce taxation, making Manitoba a more competitive place to invest and create jobs, as well as a more desirable place to live, work and prosper.

Budget Paper A

ECONOMIC PERFORMANCE AND PROSPECTS

ECONOMIC PERFORMANCE AND PROSPECTS

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ECONOMIC PERFORMANCE AND PROSPECTS

- Gross Domestic Product (GDP) increased by $1.7 billion, or 8.3%, in 1988 to $21.6 billion.
- Renewed growth in non-residential capital investment, following a downturn in 1987, made an important contribution to growth in 1988, as did better performance in a number of manufacturing industries, and continued expansion of the commercial services sector, especially communications, finance, and business and personal services.
- The severe Prairie drought in 1988 sharply curtailed agricultural crop production, constrained incomes and activity related to agriculture, and reduced the availability of electricity for export. However, commodity price increases helped to offset the loss of income due to the decline in crop production, and contributed to strong growth in incomes in the mining sector. Net merchandise exports were the strongest growing component of demand in 1988.
- After accounting for price changes, real Gross Domestic Product is estimated to have increased by 0.7% in 1988.

Manitoba Outlook at a Glance

	1989	1990
	(Per Cent Change Except as Noted)	
Gross Domestic Product (market prices)		
Nominal	6.8	5.7
Real	3.5	2.0
Non-Residential Investment	14.2	–
Employment	1.2	0.8
Unemployment Rate (%)	7.6	7.7

- Slower growth in the North American economy and high interest rates limit short-term prospects in Manitoba. Nonetheless, an acceleration in investment spending in 1989, and recovery from the drought, when it occurs, will strengthen growth, likely to somewhat above the national average over the next two years. Current projections suggest that real GDP in Manitoba is likely to increase by about 3.5% in 1989, and a further 2% in 1990.
- The April federal Budget projected a slowdown in real GDP growth in Canada, from 4.5% in 1988 to 3% in 1989 and 1.7% in 1990. Employment growth is expected to decline from 3.2% in 1988 to 1.7% in 1989 and 0.7% in 1990, and unemployment rates to increase from current levels of less than 8% to 8.5% in late 1990.

Investment

- Non-residential investment increased by 8% in 1988. In 1989, growth is projected to accelerate to 14%, raising non-residential investment to $3 billion. Real non-residential investment is expected to be the fastest growing component of real GDP in 1989. High interest rates and apartment vacancies are expected to continue to dampen residential construction activity.

- In 1988, growth in non-residential investment was led by growth in the transportation, communications, other utilities and commercial services sectors. In 1989, the locus of growth is expanding to include the manufacturing and finance, insurance and real estate sectors.

Labour Market

- Employment in Manitoba averaged 494,000 in 1988, an increase of 2,000, or 0.4% from 1987. In 1987 and 1988, declines in agricultural employment offset approximately half of the growth in non-agricultural employment.

- In April 1989, Manitoba's seasonally adjusted unemployment rate was 7.8%, third lowest among provinces. In the latest three months, ended April 1989, employment in Manitoba averaged 4,000 or 0.9% higher than for the same period in 1988.

- Prospects for further growth in employment and reductions in the unemployment rate over the short term are tempered by the expected national slowdown. Employment growth in Manitoba is expected to average about 1% per year in 1989 and 1990.

Prices and Incomes

- Improved international markets for grains and metals contributed to an average 18% increase in merchandise export prices, and to increased export earnings for Manitoba producers. Merchandise import prices, constrained somewhat by the appreciation of the Canadian dollar, increased by less than 3%.

- In 1988, as in 1987, the Consumer Price Index (CPI) for Manitoba increased by 4.2%. Food and housing prices increased by 2.8% and 3.5%, respectively. Energy prices declined for the third successive year, moderating cost increases in both transportation and housing. Consumer price increases are generally expected to be in the 4–5% range in 1989 and 1990.

- Wage pressures remained moderate in 1988. Base rate wage settlements in Manitoba increased by 3.7%, a rate well below both the national average of 4.3%, and the increase in the CPI. Wage pressure is expected to remain moderate in 1989 and 1990.

- Total personal income increased 5.8% to $18.9 billion in 1988. In 1989, non-farm income is expected to increase by more than 7%, similar to the rate recorded in 1988. Farm income growth is less certain, but with more favourable growing conditions total personal income growth could exceed 8%.

Sectoral Developments

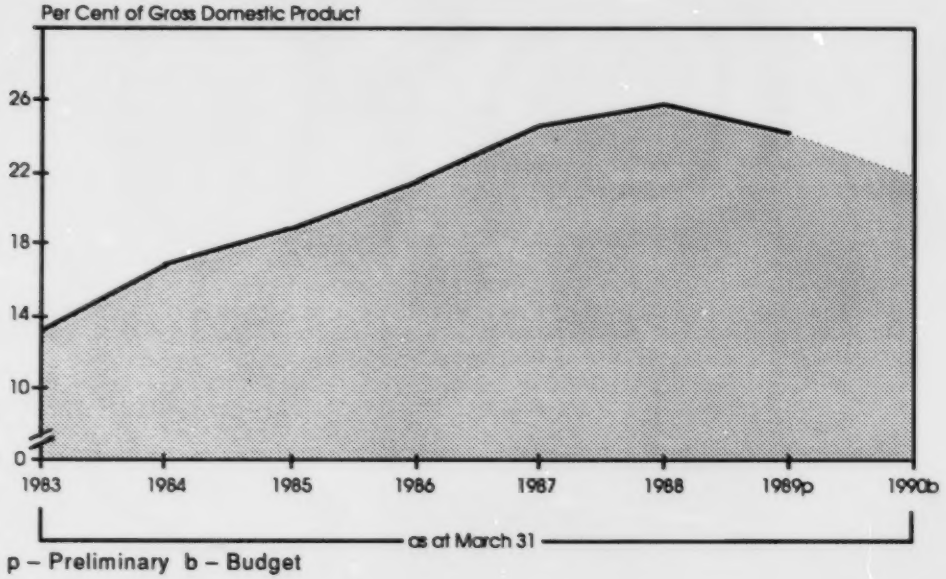
- Soil moisture conditions remain a concern as few areas of the Province received adequate snowfall or spring rains to restore moisture conditions to normal. Recent rains have helped, however, more is required to promote crop growth. The farm financial situation is also a concern. Even with relatively favourable growing conditions, realized net income is projected to decline by 27% in 1989, although inventory rebuilding could contribute to increased total net income.

- Following a 31% increase in 1987, the value of mineral production increased a further 68% to $1.7 billion in 1988. The value of nickel production more than doubled to $1.1 billion, and gains were recorded for most other metals (principally copper, zinc and gold). Although commodity prices have moved off peak levels, the industry expects favourable market conditions to continue in 1989.

- The purchase of Manfor Ltd. by Repap Enterprises Inc. has laid the groundwork for the expansion of Manitoba's forestry industry in the 1990s. A $1 billion capital construction program has been announced, beginning with the $200 million conversion of the current facilities to bleached kraft paper production. Completion of an $800 million state-of-the-art bleached kraft mill in 1993, is expected to add 350 to 400 new jobs to the present workforce of 850.

- The value of manufacturing shipments in Manitoba increased by $344 million, or 5.8%, to $6.2 billion in 1988, surpassing increases in 1986 and 1987. Strong advances were posted by the transportation equipment, printing and publishing, machinery, and chemicals industries. Manufacturing employment increased by more than 12% to 63,000 in 1988. A 46% increase in investment in 1989 is expected to raise both productivity and capacity in the manufacturing sector.

Net General Purpose Debt



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Source: Manitoba Department of Finance

- Manitoba's total direct and guaranteed debt, net of sinking funds, stood at $10.6 billion on March 31, 1989—more than $27,000 per household and almost half of one year's total Gross Domestic Product (GDP). Of the total, $5.2 billion represents net debt incurred for general government purposes, and is directly supported by taxpayers.

- Net general purpose debt increased by less than 2% in 1988/89, less than the rate of growth in the economy for the first time since 1980/81. The ratio of debt to GDP declined from its peak of 25.8%, to 24.2% of GDP in 1988/89. Net general purpose debt is expected to decline to $5 billion and to 21.7% of GDP in 1989/90.

- The cost of servicing general purpose debt remains high. In 1989/90, it is anticipated that $552 million—11.5% of total government expenditures, or approximately $1,400 per household—will be spent on debt service costs.

- Nationally, household and business debt continued to increase in 1988.

  – Total consumer credit and household mortgage debt in Canada increased 15% in 1988 to $269 billion, reaching an historically high 45% of GDP. Household debt has been growing faster than personal disposable income since 1985.

  – An increase in retained earnings following the 1981–82 recession allowed non-financial corporations to reduce their outstanding debt from 62% of GDP in 1982 to 58% in 1988. In 1988, corporate debt increased by 9%, to $345 billion, largely as a result of a reduction in equity financing.

Canadian Exchange and Interest Rates

	1985	1986	1987	1988	1989
Exchange Rates: (March 31)			(Canadian $ Per Unit)		
U.S. Dollar	1.3670	1.3973	1.3051	1.2341	1.1932
Japanese Yen	0.0054	0.0079	0.0090	0.0099	0.0090
Deutsche Mark	0.4442	0.5959	0.7245	0.7455	0.6292
Swiss Franc	0.5258	0.7160	0.8671	0.9058	0.7181
Interest Rates: (annual average)			(Per Cent)		
90-Day Commercial Paper	9.6	9.2	8.4	9.7	11.9*
5-Year Mortgages	12.1	11.2	11.2	11.6	12.4*
Consumer Prices:			(Per Cent Change)		
(annual average)	4.0	4.1	4.4	4.1	4.5*

* January to April average

Source: Statistics Canada and Bank of Canada Review

- Short-term interest rates in Canada rose significantly during 1988 and the first four months of 1989. On June 1, 1989, the bank rate stood at 12.42%, down slightly from 12.62% on April 27, 1989, but 372 basis points above its level in early 1988. Five-year mortgage rates rose to a four-year high of 12.75% in late March 1989, and have since declined to the 12% range.

- Interest rates in Canada have risen relative to U.S. rates, as the Bank of Canada has sought to reduce inflationary spending pressures which have been particularly prevalent in Central Canada. The spread between Canadian and U.S. three-month commercial paper rates increased from an average of 176 basis points in 1988, to over 250 points in May 1989.

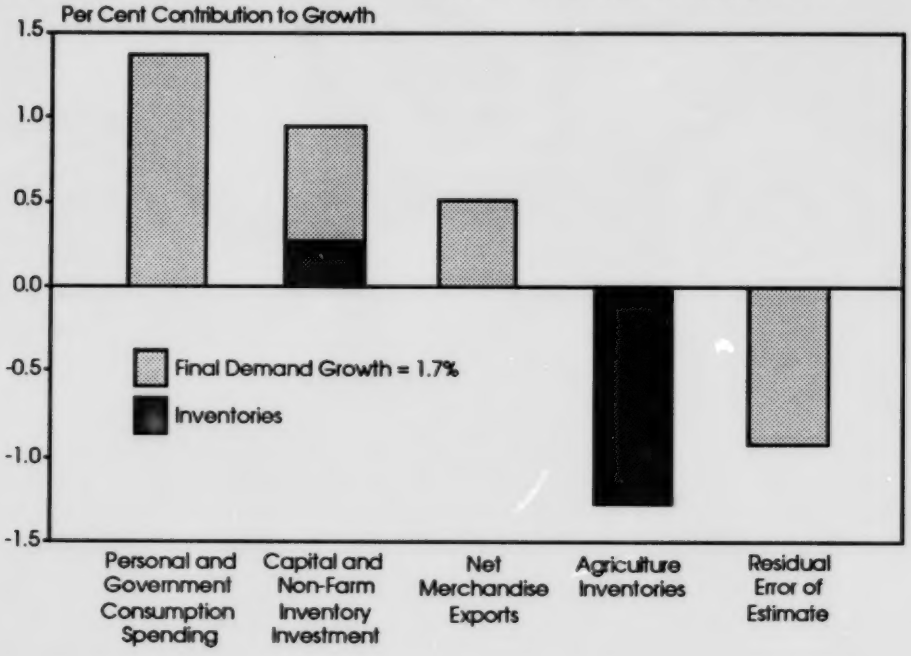
- High interest rates have raised considerable concern regarding their impact on resource industries, small businesses, farmers and homeowners. A number of provinces have noted the dampening effect on investment and job creation, especially in lower growth regions.

- From January 1988 to early May 1989, the Canadian dollar rose 10% against the U.S. dollar to a peak of 84.7¢ U.S. on May 2, 1989. The dollar stood at 82.9¢ U.S. at noon on May 31, 1989.

- Relative to other major currencies, the Canadian dollar has regained a portion of the ground lost since the mid-1980s. In 1988 and the first five months of 1989, the value of the Canadian dollar increased 25% against the Japanese Yen, 34% against the Deutsche Mark and 43% against the Swiss Franc.

- The increased value of the Canadian dollar has facilitated the conversion of the Province's public debt obligations into North American currencies. Debt obligations in off-shore currencies have been reduced by half, to less than 10% from over 20% on March 31, 1988. Unamortized foreign exchange fluctuation has also been reduced, from $666 million on March 31, 1988, to $67 million on March 31, 1989.

Sources of Real Gross Domestic Product Growth, 1988



Source: Manitoba Bureau of Statistics

- Manitoba's Gross Domestic Product (GDP) increased by $1.7 billion, or 8.3%, in 1988 to $21.6 billion. After accounting for price increases, especially among key Manitoba exports, real growth of only 0.7% was recorded.

- Personal and government consumption spending contributed 1.4 percentage points to real growth in 1988. Capital and non-farm inventory investment contributed a further 1.0 percentage point to real growth, of which 0.8 percentage points was business non-residential investment.

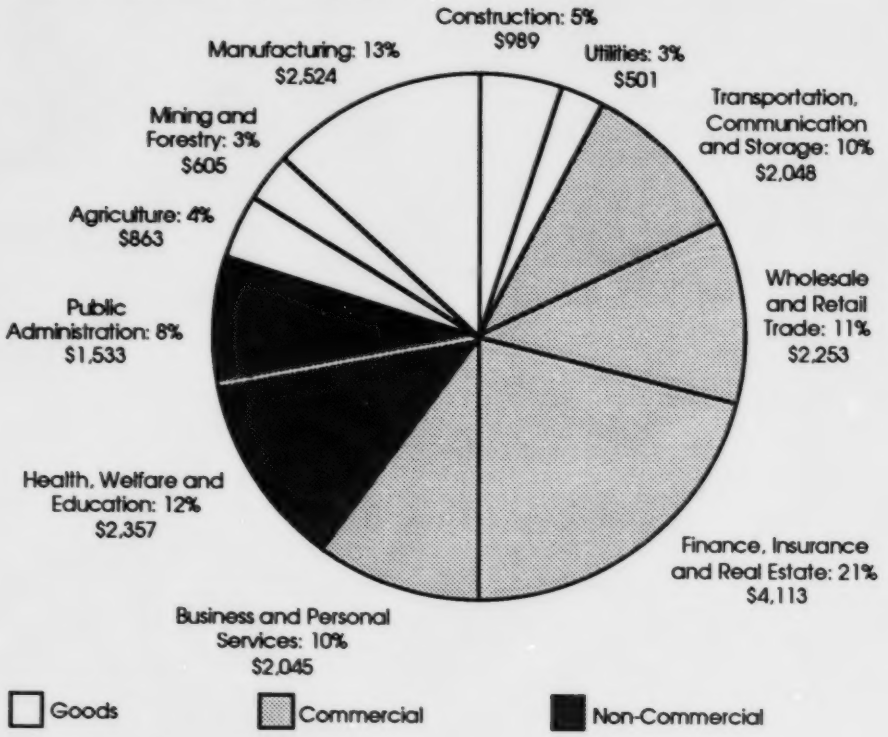
- The nominal value of merchandise exports increased strongly in 1988, and after accounting for imports and price changes, real net merchandise exports contributed 0.6 percentage points to real GDP growth.

- The major factor detracting from overall GDP growth in 1988 was the decline in production of most major agricultural crops and consequent drawdown in agriculture inventories, which subtracted 1.3 percentage points from real GDP growth.

- The error of estimate, which is calculated on a residual basis and includes the net trade in services, is estimated to have declined.

Gross Domestic Product at Factor Cost, by Industry, 1988

Millions of Dollars and Per Cent of Total



Source: Manitoba Bureau of Statistics

- Gross Domestic Product at factor cost, that is, the sum of all factor incomes from production in the Province, totalled $19.8 billion in 1988. GDP at factor cost includes subsidies which are not part of GDP at market prices, and excludes indirect taxes which are part of GDP at market prices.

- Goods production accounts for approximately 28% of the Province's GDP at factor cost. Commercial services generate slightly more than half of GDP, while the remaining 20% is derived from non-commercial services.

- Manufacturing is the largest goods producing sector, accounting for 13% of total GDP. Construction accounts for 5%; agriculture for 4%; and mining and forestry; and electric, gas and other utilities each account for 3%.

- Within commercial services, finance, insurance and real estate accounts for 21% of GDP, wholesale and retail trade for 11%; and transportation, communication and storage; and business and personal services each account for 10%.

- Health, welfare and education accounts for 12% of GDP, and public administration accounts for 8%.

Population and Labour Market, 1984 to 1989

	1984	1985	1986	1987	1988	April 1989*
	(Thousands of Persons)					
Population (June 1)	1,055	1,064	1,071	1,079	1,084	1,083
Working Age Population	779	787	793	799	803	803
Labour Force	513	518	526	531	535	538
Employment	470	475	486	492	494	496
Paid Workers	392	390	399	406	411	—
Unemployed	43	42	40	39	42	42
	(Per Cent)					
Participation Rate	65.8	65.8	66.4	66.5	66.7	67.0
Unemployment Rate	8.4	8.2	7.7	7.4	7.8	7.8

* Labour Market statistics are seasonally adjusted

Source: Statistics Canada

- British Columbia and Ontario have attracted net interprovincial migration inflows from virtually all other provinces in recent years. In 1988, the Prairie drought contributed to an acceleration of net interprovincial out-migration from Saskatchewan (up 5,940 to 16,140) and Manitoba (up 4,571 to 9,529).

- Manitoba's population is estimated at 1,083,300 on April 1, 1989, an increase of 800 from January 1989. The population increase in the first quarter of 1989 offset one-third of the decline which occurred in the second half of 1988.

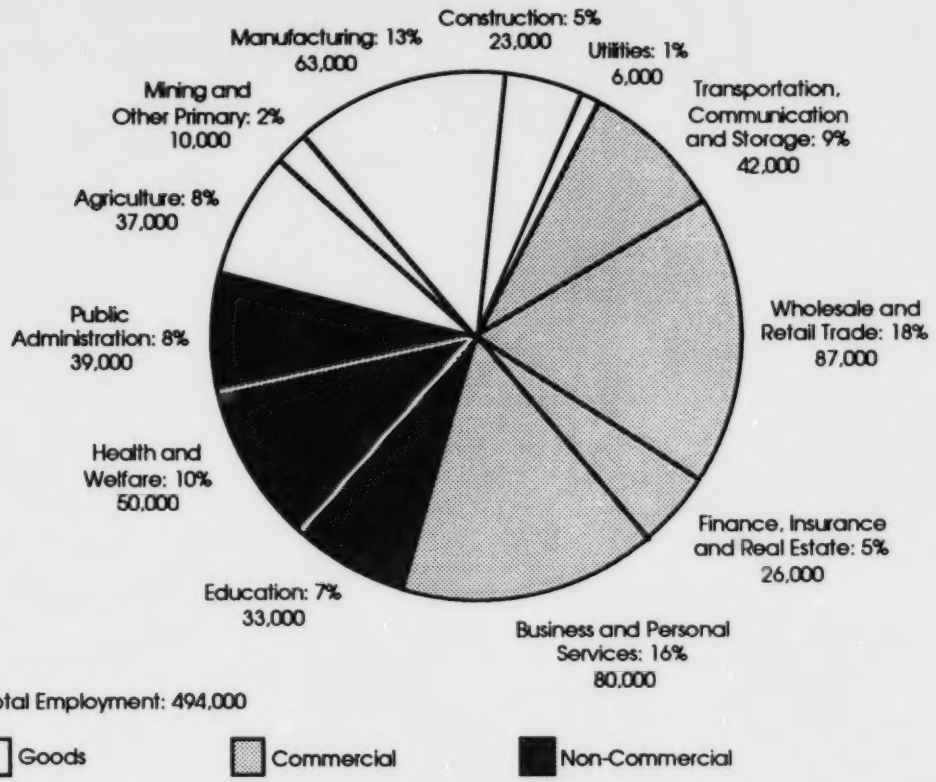
- In 1988, employment averaged 494,000 in Manitoba—61.5% of the working age population (aged 15 years and over). Manitoba's unemployment rate averaged 7.8%—third lowest among provinces.

- The number of paid workers in Manitoba increased by 5,000, or 1.2%, in 1988 to 411,000. Four thousand, or 80% of the increase was in the private sector. The length of the average work-week among all employed Manitobans (full- and part-time) increased by 1% to approximately 35 hours.

- In the latest three months, ended April 1989, employment in Manitoba averaged 4,000, or 0.9%, higher than in the same period in 1988. The seasonally adjusted unemployment rate was 7.8% in April 1989.

Employment by Industry, 1988

Number of Employed and Per Cent of Total



Note: Totals may not add due to rounding

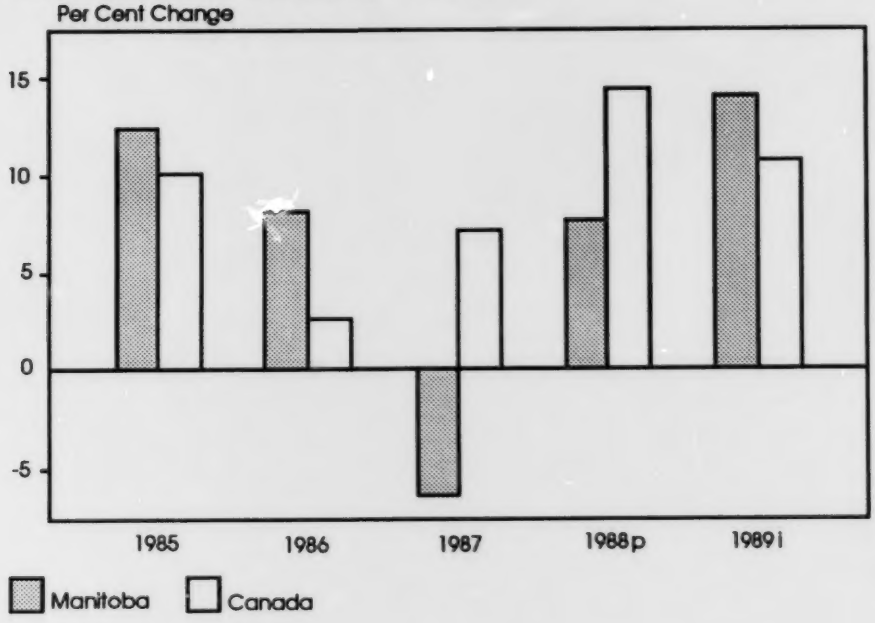
Source: Statistics Canada

- Goods producing industries account for about 28% of total employment in Manitoba. Employment in agriculture declined by 8,000 from 1986 to 1988, however, these losses were offset by increases in mining and other primary industries (forestry, fishing, hunting and trapping) and, in 1988, by rapid growth in manufacturing employment. Non-agricultural employment increased 15,000 from 1986 to 1988, to an annual average of 456,000.

- Commercial services account for 48% of total employment. Business and personal services accounted for more than half of the increase in commercial services employment in the past two years.

- Non-commercial services, including health care, welfare, education and public administration, account for the remaining 25% of employment.

Non-Residential Capital Investment, Manitoba and Canada, 1985 to 1989



p - Preliminary i - Intentions

Source: Statistics Canada

- According to Statistics Canada's Private and Public Investment Survey, capital investment in Manitoba is projected to reach $4.1 billion in 1989, an increase of $350 million, or 9.4%, from 1988—third strongest growth among provinces and above the national increase of 8.2%.

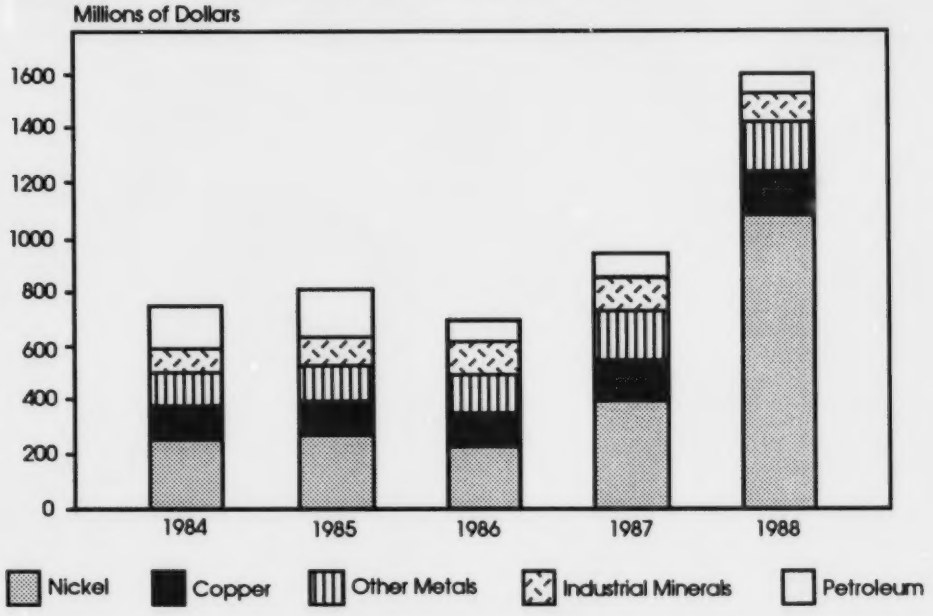
- Non-residential investment in Manitoba is expected to increase by 14.2% to $3 billion in 1989, with growth led by:

  - manufacturing, up 46% to $256 million;
  - finance, insurance and real estate, up 31% to $266 million;
  - electric, gas and other utilities (which includes Manitoba Hydro), up 23% to $542 million; and
  - commercial services, up 9.8% to $320 million.

- In addition to projects already included in the Survey, the $1 billion forestry expansion by Repap Enterprises Inc., and other investments such as those by Boeing Canada, Canadian Occidental Petroleum and Minebea Co. Ltd. will contribute to Manitoba's prospects in 1989 and in the years ahead.

- In 1988, there were 5,455 housing starts in Manitoba. Residential investment spending is projected to decline by 1.9% to $1.1 billion in 1989, with housing starts in the 4,000 to 5,000 range, reflecting the impact of high interest rates and apartment vacancies.

Value of Mineral Production, 1984 to 1988

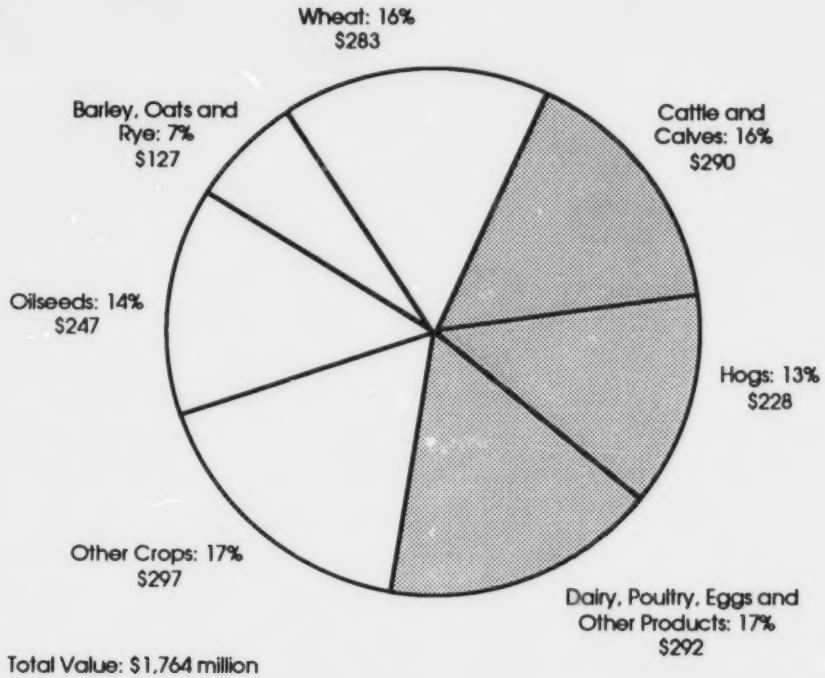


Source: Manitoba Department of Energy and Mines

- The value of mineral production increased 68% in 1988, to $1.7 billion, following a 31% increase in 1987.
- Volume and price increases for nickel, along with higher prices for most other metals, contributed to a 94% increase in the value of metal production to $1.5 billion.
- Nickel production increased 22% to 71,600 tonnes in 1988, which, along with a 122% price increase, generated a record $1.1 billion value of production. Inco Ltd. has announced a $100 million investment in the Thompson area to re-activate the Birchtree Mine and to develop a new open-pit mine south of its current operations.
- The value of production of copper increased 7% to $171 million, zinc increased 16% to $94 million, gold rose 6% to $74 million, and platinum rose 15% to $16 million in 1988.
- The value of industrial minerals declined by 5% to $125 million and petroleum declined by 25% to $82 million in 1988.

Agricultural Production, 1988

Millions of Dollars and Per Cent of Total



Total Value: $1,764 million

Crops Livestock and Other

Note: Oilseeds include canola, flax and sunflower
Other Crops include hay, $136 million, and potatoes, $45 million

Source: Manitoba Department of Agriculture

- In 1988, the total value of agricultural production declined by $166 million, or 8.6%, to $1.8 billion as the Prairies experienced the worst drought in 50 years.
- The drought drastically reduced production in 1988 to 18% below 1987. Crop production declined by roughly 30%, and livestock production by about 3%.
- Production of all major grains declined sharply in 1988—wheat, 39%, and oats and barley, 46%. Although higher prices and improved crop quality offset part of the lower production, the value of crop production was down $182 million, or 16%, to $954 million.
- The value of livestock production increased by $16 million, or 2%, to $772 million as increases in the value of cattle and calves, poultry, eggs and other products, offset declines in the value of hogs and dairy products.

Farm Income, 1984 to 1988

	1984	1985	1986	1987	1988p
	(Millions of Dollars)				
Cash Receipts					
Crops	1,157	1,105	1,067	804	850
Livestock	688	722	771	816	772
Payments	134	172	238	478	432
Total Cash Receipts	**1,980**	**2,000**	**2,076**	**2,097**	**2,054**
Less: Operating Expenses	1,420	1,471	1,401	1,380	1,368
Net Cash Income	**559**	**528**	**675**	**717**	**686**
Income-in-Kind	14	14	14	15	14
Less: Depreciation	275	264	271	265	272
Realized Net Income	**299**	**278**	**419**	**466**	**428**
Inventory Change	14	283	-35	-78	-233
Total Net Income	**313**	**561**	**384**	**388**	**196**

p – Preliminary

Note: Totals may not add due to rounding.

Source: Statistics Canada

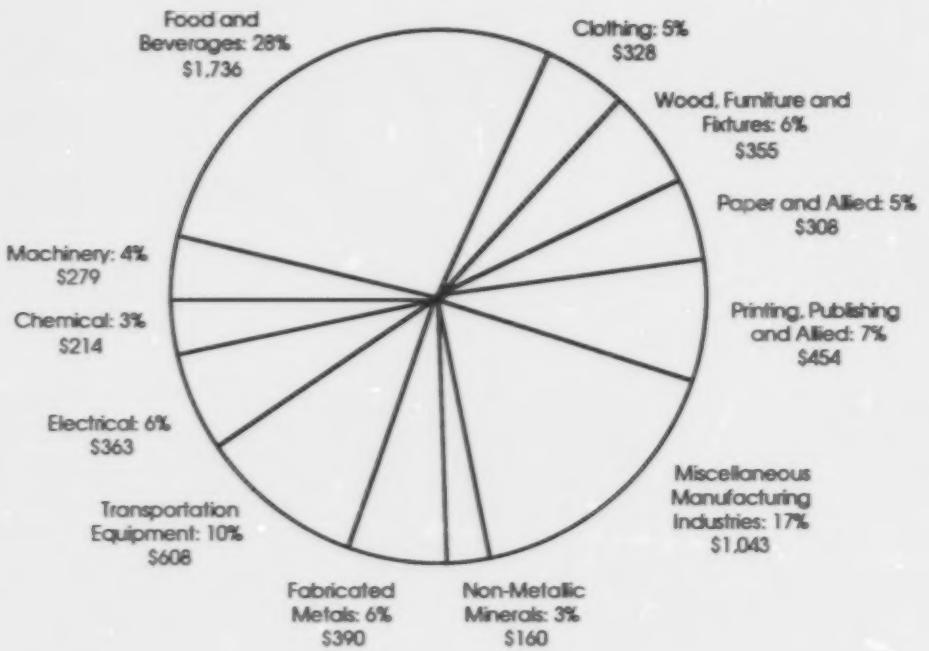
- In 1988, total farm cash receipts declined by 2.1% to $2 billion. Cash receipts for crops increased by 5.7% to $850 million. Cash receipts for livestock declined by 5.4% to $772 million. Other payments declined by 9.6% to $432 million. Included in other payments are $131 million from the Western Grain Stabilization Program (WGSP; down $129 million from 1987), $93 million in Crop Insurance payments (up $48 million) and an additional $208 million, which includes the Special Canadian Grains Program (SCGP) and income stabilization plans.

- Farm operating expenses and depreciation were virtually unchanged from their 1987 levels, while realized net income declined by $38 million, or 8.2%, to $428 million.

- The size and quality of the crop in 1989 will depend upon weather conditions, especially rainfall. Even with relatively favourable crop production, the growth in income from marketings is expected to be offset by a further reduction in payments from the WGSP, and lower assistance under the Canadian Drought Assistance Program than had been received under the SCGP. According to the December 1988 agriculture outlook, realized net farm income is projected at $314 million in 1989, down 27% from 1988.

Manufacturing Shipments, 1988

Millions of Dollars and Per Cent of Total


Food and Beverages: 28% $1,736
Clothing: 5% $328
Wood, Furniture and Fixtures: 6% $355
Paper and Allied: 5% $308
Printing, Publishing and Allied: 7% $454
Miscellaneous Manufacturing Industries: 17% $1,043
Non-Metallic Minerals: 3% $160
Fabricated Metals: 6% $390
Transportation Equipment: 10% $608
Electrical: 6% $363
Chemical: 3% $214
Machinery: 4% $279

Total Value of Shipments: $6,237 million

Note: Totals may not add due to rounding

Source: Statistics Canada

- The value of manufacturing shipments in Manitoba increased by $344 million to over $6.2 billion in 1988. Growth, at 5.8%, was up from rates of 2.7% and 3.4% in 1986 and 1987, respectively.

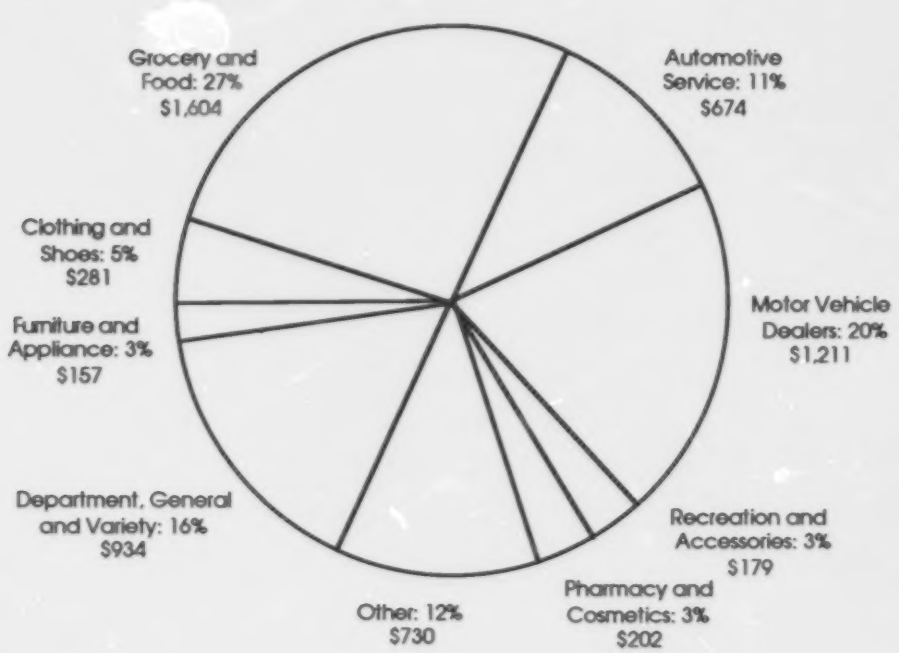
- Growth in the value of shipments was led by machinery, up 19.2%; transportation equipment, up 17.5%; printing and publishing, up 12.5%; and chemicals, up 9.8%. The value of metal fabricating and electrical industries' shipments both increased by over 7.5%, while food and paper products advanced by 1.4% and 4.5%, respectively. Reductions were reported for the wood, furniture and fixtures; clothing; non-metallic minerals and beverages industries.

- Employment in manufacturing industries increased by 12.5% to 63,000 in 1988, its highest level since 1981.

- In the three months ended February 1989, the value of manufacturing shipments increased 11.6% from a year earlier with particularly strong growth in shipments of machinery, fabricated metal and transportation equipment. Investment in manufacturing industries is projected to increase by 46% in 1989.

Retail Sales, 1988

Millions of Dollars and Per Cent of Total


Grocery and Food: 27% $1,604
Automotive Service: 11% $674
Clothing and Shoes: 5% $281
Motor Vehicle Dealers: 20% $1,211
Furniture and Appliance: 3% $157
Department, General and Variety: 16% $934
Recreation and Accessories: 3% $179
Pharmacy and Cosmetics: 3% $202
Other: 12% $730

Total Sales: $5,972 million

Note: Totals may not add due to rounding

Source: Statistics Canada

- Retail sales rose by 3.5% in 1988 to approximately $6 billion. Sales declined in furniture, appliance and department stores, reflecting a lower level of housing starts in the Province. In other types of stores sales increased by 4.7%, on average.

- In the first quarter of 1989, retail sales in Manitoba averaged 2.8% higher than a year earlier. High interest rates contributed to declines in sales in furniture and appliance stores and motor vehicle dealers. On average, sales in other stores increased by 5.8%. Retail sales growth continued to be strongest outside of Winnipeg, as was the case for most of 1988.

MANITOBA ECONOMIC STATISTICS, 1984 to 1988

	1984	1985	1986	1987	1988p
	(Millions of Dollars Except as Noted)				
GROSS DOMESTIC PRODUCT	16,509	17,939	18,807	19,983	21,649
SECTORS					
Agricultural Production	2,302	2,434	1,996	1,930	1,764
Manufacturing Shipments	5,042	5,552	5,700	5,894	6,237
Mineral Production	817	861	764	1,000	1,679
Electric Power Sales	532	578	614	608	631
Housing Starts (Units)	5,308	6,557	7,699	8,174	5,455
Retail Trade	4,514	5,201	5,444	5,770	5,972
INCOME					
Total Personal	14,629	15,854	16,700	17,916	18,948
Personal Disposable	12,411	13,449	13,963	14,789	15,435
Wages and Salaries	8,178	8,648	9,366	9,991	10,575
Farm Cash Receipts	1,980	2,000	2,076	2,097	2,054
INVESTMENT					
Total	2,538*	3,200	3,584	3,516	3,714
Non-Residential	2,111	2,382	2,584	2,417	2,609
Housing	427*	818	1,001	1,099	1,105
POPULATION					
June (000's)	1,055	1,064	1,071	1,079	1,084
LABOUR MARKET					
Labour Force (000's)	513	518	526	531	535
Employment (000's)	470	475	486	492	494
Participation Rate (%)	65.8	65.8	66.4	66.5	66.7
Unemployment Rate (%)	8.4	8.2	7.7	7.4	7.8
CONSUMER PRICES					
(Index, 1981 = 100)	120.3	125.4	130.9	136.4	142.1

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* Estimates for 1985 to 1988 reflect revisions to Statistics Canada's methodology for estimating housing investment, while data prior to 1985 have not been revised.

Source: Statistics Canada and Manitoba Bureau of Statistics

1984	1985	1986	1987	1988p	
(Per Cent Change)					
10.7	8.7	4.8	6.3	8.3	**GROSS DOMESTIC PRODUCT**
					SECTORS
16.0	5.8	-18.0	-3.3	-8.6	Agricultural Production
3.8	10.1	2.7	3.4	5.8	Manufacturing Shipments
17.8	5.4	-11.3	30.9	67.9	Mineral Production
11.8	8.6	6.2	-1.0	3.8	Electric Power Sales
-11.3	23.5	17.4	6.2	-33.3	Housing Starts
10.1	15.2	4.7	6.0	3.5	Retail Trade
					INCOME
10.9	8.4	5.3	7.3	5.8	Total Personal
11.8	8.4	3.8	5.9	4.4	Personal Disposable
7.7	5.7	8.3	6.7	5.8	Wages and Salaries
10.1	1.0	3.8	1.0	-2.1	Farm Cash Receipts
					INVESTMENT
16.2	26.1*	12.0	-1.9	5.6	Total
20.2	12.8	8.5	-6.5	7.9	Non-Residential
-0.3	91.4*	22.4	9.8	0.5	Housing
					POPULATION
0.9	0.8	0.7	0.7	0.5	June
					LABOUR MARKET
1.2	1.0	1.5	1.0	0.8	Labour Force
2.4	1.1	2.3	1.2	0.4	Employment
-	-	-	-	-	Participation Rate
-	-	-	-	-	Unemployment Rate
					CONSUMER PRICES
3.7	4.2	4.4	4.2	4.2	

Note: Per cent changes are based on unrounded data.

Budget Paper B

FINANCIAL STATISTICS

FINANCIAL STATISTICS

FINANCIAL STATISTICS

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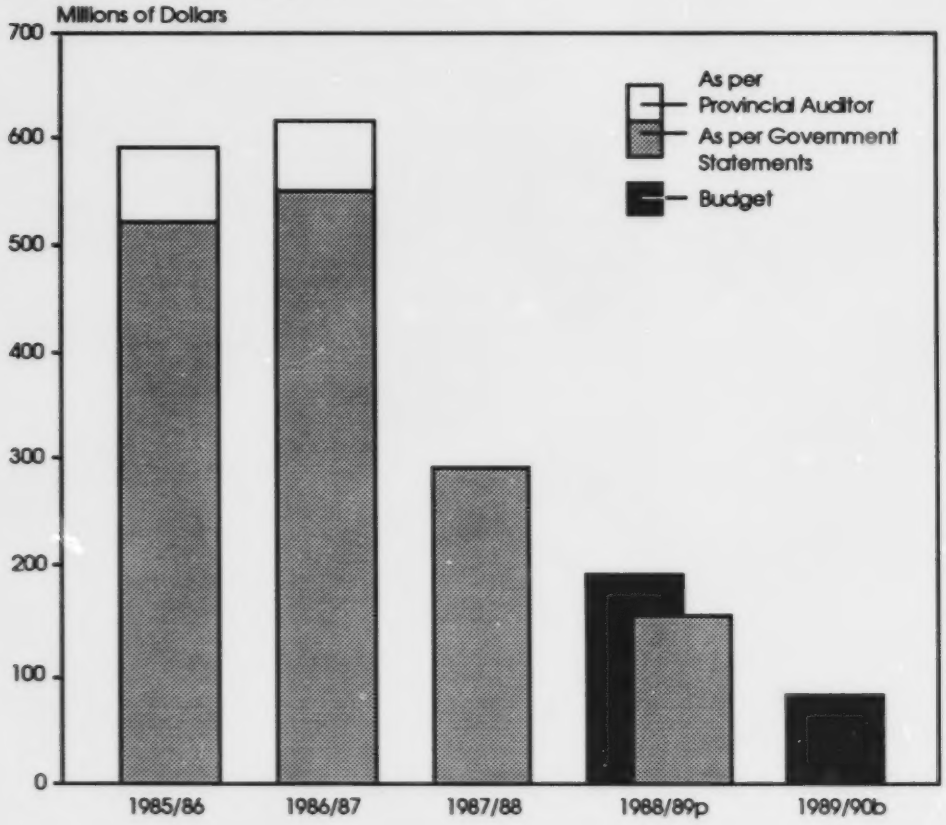
Deficits

Summary, 1985/86 to 1989/90



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Comparative Statement of Budgetary Revenue and Expenditure

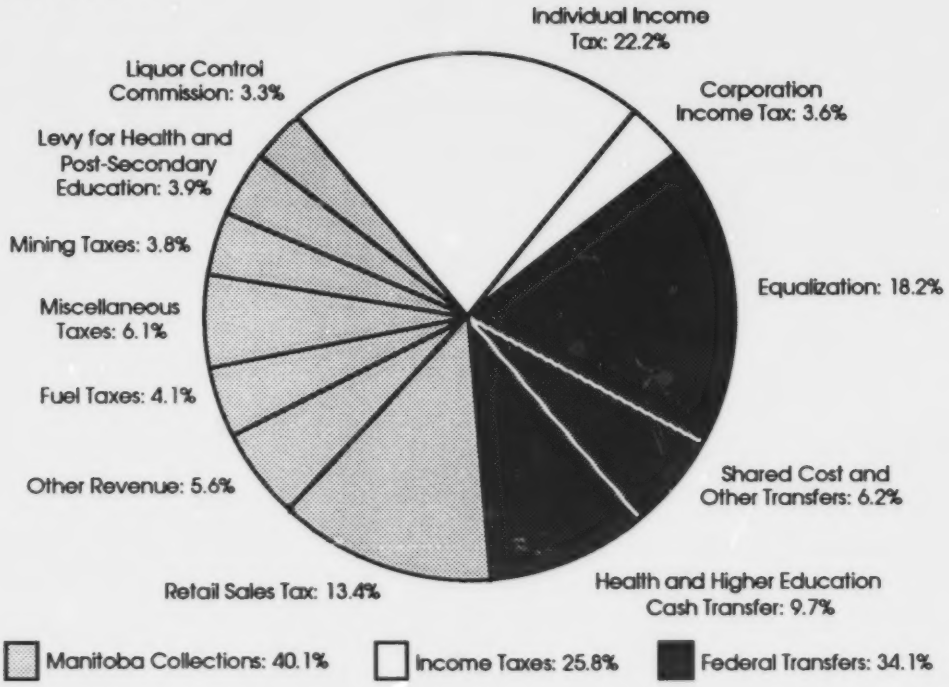
1988/89 and 1989/90

	1988/89 Budget	1989/90 Budget	Change	Change
	(Millions of Dollars)			(Per Cent)
Budgetary Expenditure	4,561	4,766	205	4.5
Revenue	4,365	4,679	314	7.2
Deficit	196	87	<109>	<55.6>

Provincial Revenue, 1989/90

Major Sources

Per Cent of Total



Note: Totals may not add due to rounding

Effect of Fiscal Stabilization Fund on Budgetary Revenue
1988/89 and 1989/90

	1988/89 Preliminary	1989/90 Budget
	(Millions of Dollars)	
Revenue Prior to Stabilization	4,541	4,629
Transfer <to> from Fund	<200>	50
Revenue After Stabilization	4,341	4,679

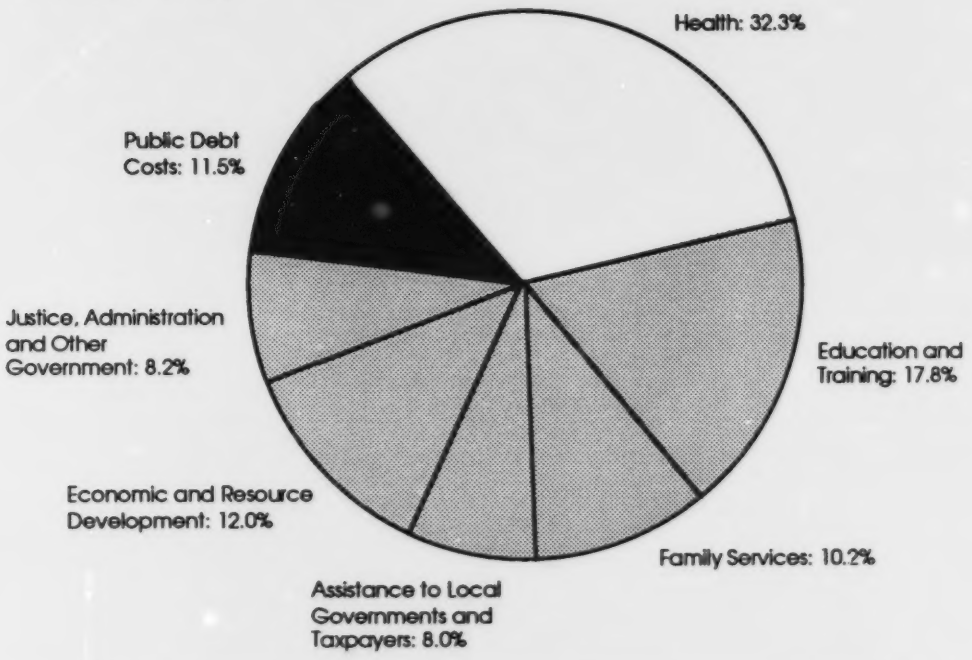
Revenue Estimates

1988/89 Budget				1989/90 Estimate	% of Total Revenue
		OWN-SOURCE REVENUE			
$1,713,604,900		**Manitoba Collections**		$1,828,238,500	39.1
		Taxes, Levies and Collections			
	$ 12,960,000	• Land Transfer Tax	$ 12,070,000		
	59,900,000	• Corporation Capital Tax	62,000,000		
	120,000,000	• Gasoline Tax	129,150,000		
	21,000,000	• Insurance Corporations Tax	23,400,000		
	199,800,000	• Levy for Health and Education	180,500,000		
	117,360,000	• Mining Tax	180,000,000		
	64,000,000	• Motive Fuel Tax	63,600,000		
	8,300,000	• Oil and Natural Gas Tax	6,300,000		
	596,000,000	• Retail Sales Tax	624,700,000		
	43,500,000	• Revenue Act, 1964, Part I	46,500,000		
	94,400,000	• Tobacco Tax	112,000,000		
	5,155,000	• Other Taxes	5,234,900		
	18,000,000	• Reciprocal Taxation Agreement	18,000,000		
	$1,360,375,000	Subtotal	$1,463,454,900		
		Fees and Other Revenue			
	$ 22,754,100	• Fines and Costs; Land Titles; and Other Legal	$ 24,972,300		
	5,257,500	• Minerals and Petroleum; and Other Energy and Mines	5,082,500		
	34,288,200	• Automobile and Motor Carrier Licences and Fees	37,826,400		
	7,758,000	• Drivers' Licences	7,721,200		
	23,448,200	• Water Resources	30,939,900		
	14,966,700	• Parks; Forestry; Fisheries; and Other Natural Resources	15,507,000		
	10,000,000	• Lottery Revenues for Health	0		
	81,757,200	• All Other Manitoba Collections	89,734,300		
	$ 200,229,900	Subtotal	$ 211,783,600		
	$ 153,000,000	**Liquor Control Commission**	$ 153,000,000		
$1,251,900,000		**Income Taxes**		1,205,800,000	25.8
	$ 211,100,000	• Corporation Income Tax	$ 167,300,000		
	1,040,800,000	• Individual Income Tax	1,038,500,000		
$1,399,067,200		**Federal Transfers**		1,594,631,800	34.1
	$ 655,700,000	**Equalization**	$ 852,500,000		
	$ 455,000,000	**Health and Higher Education Cash Transfer**	$ 451,700,000		
		Shared Cost and Other Transfers			
	$ 190,401,200	• Canada Assistance Plan	$ 203,906,000		
	97,966,000	• Other	86,525,800		
	$ 288,367,200	Subtotal	$ 290,431,800		
$4,364,572,100		**TOTAL REVENUE BEFORE STABILIZATION**		$4,628,670,300	
		Revenue from Fiscal Stabilization Fund		50,000,000	1.1
$4,364,572,100		**TOTAL REVENUE AFTER STABILIZATION**		$4,678,670,300	100.0

Provincial Expenditure, 1989/90

Major Categories

Per Cent of Total Budget


Health: 32.3%
Public Debt Costs: 11.5%
Justice, Administration and Other Government: 8.2%
Education and Training: 17.8%
Economic and Resource Development: 12.0%
Family Services: 10.2%
Assistance to Local Governments and Taxpayers: 8.0%

Program Expenditure, 1989/90

Operating and Capital

	Operating Expenditure	Capital Expenditure	Total Program Expenditure
	(Millions of Dollars)		
Health	1,513	44	1,557
Education and Training	825	32	857
Family Services	491	0	491
Assistance to Local Governments and Taxpayers	350	34	384
Economic and Resource Development	444	134	578
Justice Administration and Other Government	370	27	397
Minor Capital	<27>	27	0
Total	**3,966**	**298**	**4,264**

Expenditure Estimates

1988/89 Budget			1989/90 Estimate	% of Total Expenditure
$1,457,973,500	**Health**		$1,557,233,800	32.3
800,059,900	**Education and Training**		857,187,600	17.8
450,543,500	**Family Services**		491,480,900	10.2
365,534,900	**Assistance to Local Governments and Taxpayers**		383,986,900	8.0
54,076,000	• Rural Development	$57,819,700		
74,358,900	• Urban Affairs	77,367,200		
237,100,000	• Tax Credit Programs	248,800,000		
590,430,900	**Economic and Resource Development**		577,574,800	12.0
107,338,400	• Agriculture	$88,284,200		
12,768,200	• Energy & Mines	12,015,400		
219,257,100	• Highways & Transportation	225,481,100		
48,297,300	• Housing	50,380,500		
35,454,800	• Industry, Trade & Tourism	37,912,000		
104,884,000	• Natural Resources	99,371,000		
24,827,400	• Northern Affairs	23,934,300		
21,378,800	• Canada-Manitoba Enabling Vote	24,714,300		
10,924,900	• Environment	12,082,000		
5,300,000	• Allowance for Losses	3,400,000		
376,327,200	**Justice, Administration and Other Government**		397,019,100	8.2
16,958,400	• Legislation	$13,056,400		
3,294,200	• Executive Council	3,288,000		
66,404,700	• Civil Service	69,862,600		
7,178,100	• Co-operative, Consumer & Corporate Affairs	7,934,900		
20,734,000	• Culture, Heritage & Recreation	20,347,300		
131,598,900	• Justice	142,452,600		
20,313,900	• Finance—Department Programs	22,027,500		
91,284,800	• Government Services (excl. MPI)	86,195,300		
14,845,400	• Labour	15,183,800		
200,000	• Seniors' Directorate	207,300		
2,750,000	• Flood Control & Emergency Expenditures	1,700,000		
764,800	• Status of Women	763,400		
0	• General Salary Increases	14,000,000		
4,636,200	**Hydro Rate Stabilization**		0	
$4,045,506,100	**Total Program Expenditure**		**$4,264,483,100**	**88.5**
545,035,700	**Public Debt Costs**		551,577,400	11.5
483,272,100	• Statutory	487,990,100		
61,763,600	• Manitoba Properties Inc.	63,587,300		
$4,590,541,800	**Total Expenditure Estimates**		**$4,816,060,500**	**100.0**
(30,000,000)	**Less: Year-End Lapse**		(50,000,000)	
$4,560,541,800	**TOTAL BUDGETARY EXPENDITURE**		**$4,766,060,500**	

Incremental Capital Authority Requirements For Non-Budgetary Programs, 1989/90

The Loan Act, 1989

Manitoba Hydro		$ 138,400,000
Manitoba Housing and Renewal Corporation		85,200,000
Business Support		47,000,000
Vision Capital Fund	$30,000,000	
Industrial Opportunities Program	15,000,000	
Manufacturing Adaptation Program	2,000,000	
Manitoba Telephone System		35,000,000
Manitoba Agricultural Credit Corporation		10,500,000
Manitoba Hazardous Waste Management Corporation		2,100,000
		$ 318,200,000

Schedule of Exisiting Capital Authority to Lapse, 1989/90

Manitoba Development Corporation	$ 71,000,000
Agricultural Service Centres Agreement	2,200,000
Emergency Interest Rate Relief Programs	1,800,000
Horse Racing Commission	400,000
Manitoba Jobs Fund	15,900,000
Manfor Ltd.	13,500,000
Manitoba Natural Gas Corporation	175,000,000
Manitoba Oil and Gas Corporation	5,000,000
Small Business Loans Fund	10,000,000
	$ 294,800,000

Non-Budgetary Capital Program, 1989/90

Manitoba Hydro	$ 476,800,000
Manitoba Telephone System	219,200,000
Manitoba Housing and Renewal Corporation	101,300,000
Business Support	60,400,000
Manitoba Agricultural Credit Corporation	50,000,000
Federal-Provincial Water and Sewer Agreement	33,500,000
Manitoba Data Services	8,700,000
Manitoba Water Services Board	6,800,000
Miscellaneous Corporations and Agencies	16,800,000
Total Non-Budgetary Capital Program	$ 973,500,000

STATEMENT OF VALUATION AND PURPOSE OF BONDS, DEBENTURES, AND OTHER LONG-TERM DEBT OUTSTANDING

(in thousands)

As at March 31, 1989 (Preliminary)

Valuation of Debt	Par Value	Canadian Dollar Equivalent at Date of Issue	Canadian Dollar Valuation (Note 1)	Unamortized Foreign Exchange Fluctuation
Direct Debt Payable in:				
Canadian Dollars	4,598,771	$ 4,598,771	$ 4,598,771	$ -
Foreign Issues Swapped to Canadian Dollars	911,571	871,618	911,571	24,384
U.S. Dollars	2,050,700	2,505,186	2,450,510	(29,978)
Foreign Issues Swapped to U.S. Dollars	709,128	819,678	846,131	(10,188)
Swiss Francs	670,000	465,478	481,127	(36,949)
European Units of Account	1,000	1,080	2,952	-
Japanese Yen	90,000,000	508,223	811,101	95,615
Deutsche Marks	400,000	187,266	251,680	23,897
Total Direct Debt		$ 9,957,300	$ 10,353,843	$ 66,781
Guaranteed Debt Payable in:				
Canadian Dollars	1,062,448	$ 1,062,448	$ 1,062,448	$ -
U.S. Dollars	748,000	745,563	892,514	-
Swiss Francs	80,000	54,280	57,448	-
Total Guaranteed Debt		$ 1,862,291	$ 2,012,410	$ -
Total Direct & Guaranteed Debt		$ 11,819,591	$ 12,366,253	$ 66,781
Less: Sinking Funds		1,780,659	1,780,659	-
Net Direct & Guaranteed Debt		$ 10,038,932	$ 10,585,594 (2)	$ 66,781

As at March 31, 1988

Valuation of Debt	Par Value	Canadian Dollar Equivalent at Date of Issue	Canadian Dollar Valuation (Note 1)	Unamortized Foreign Exchange Fluctuation
Direct Debt Payable in:				
Canadian Dollars	4,148,523	$ 4,148,523	$ 4,148,523	$ -
Foreign Issues Swapped to Canadian Dollars	505,318	487,527	505,318	17,791
U.S. Dollars	1,514,700	1,885,002	1,869,291	(17,522)
Foreign Issues Swapped to U.S. Dollars	106,823	126,298	131,830	(782)
Swiss Francs	1,593,800	1,139,769	1,443,664	214,702
European Units of Account	2,000	2,160	7,399	560
Japanese Yen	115,000,000	635,080	1,143,560	319,279
Deutsche Marks	900,000	491,786	670,950	131,662
Total Direct Debt		$ 8,916,145	$ 9,920,535	$ 665,690
Guaranteed Debt Payable in:				
Canadian Dollars	955,789	$ 955,789	$ 955,789	$ -
U.S. Dollars	748,000	745,563	923,107	-
Swiss Francs	80,000	54,280	72,464	-
Total Guaranteed Debt		$ 1,755,632	$ 1,951,360	$ -
Total Direct & Guaranteed Debt		$ 10,671,777	$ 11,871,895	$665,690
Less: Sinking Funds		1,558,163	1,558,163	-
Net Direct & Guaranteed Debt		$ 9,113,614	$ 10,313,732 (2)	$ 665,690

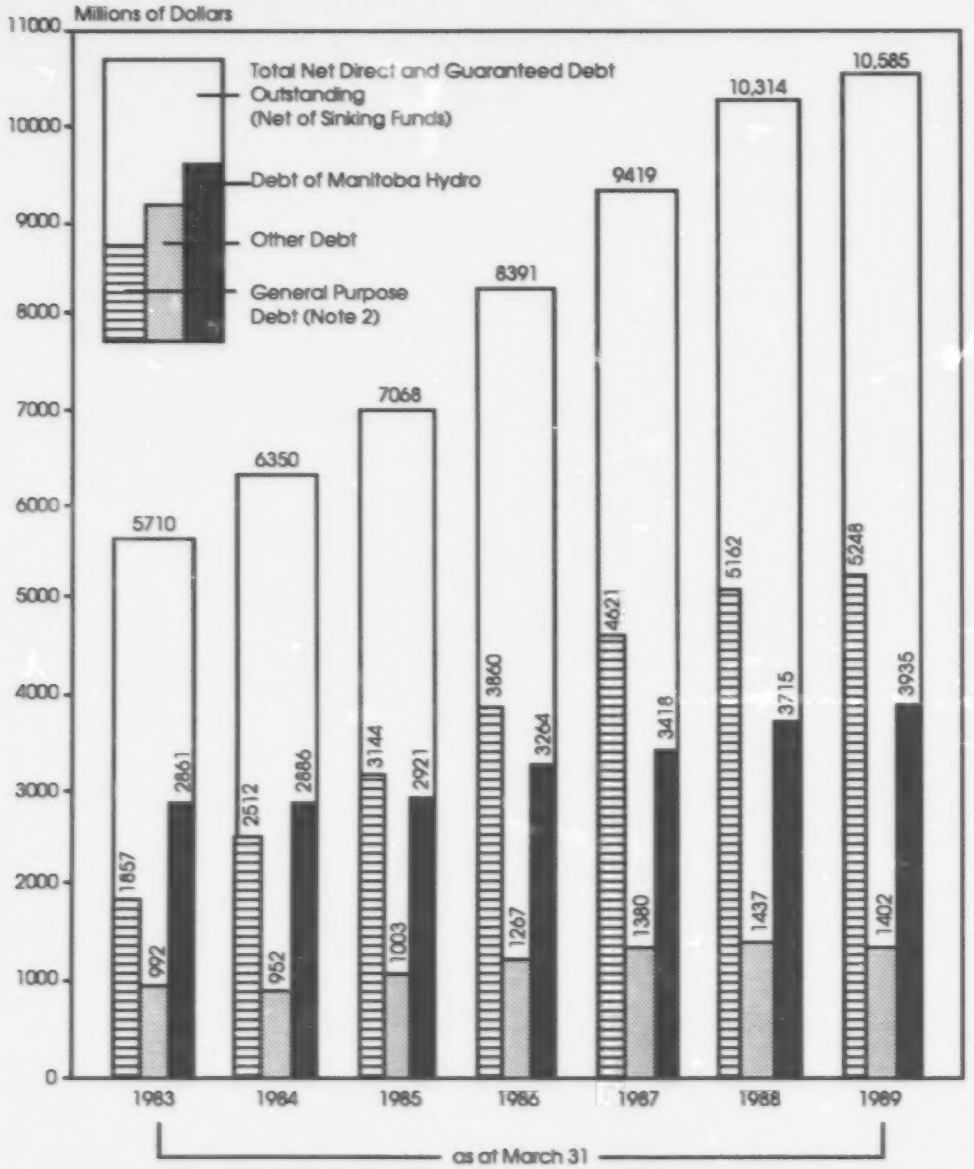
NOTE 1: The Canadian Dollar Valuation is calculated using the foreign currency exchange rates in effect at March 31 adjusted for any foreign currency contracts entered into for settlement after the fiscal year end.

NOTE 2: The above debt was issued for the following purposes:

	March 31, 1989	March 31, 1988
General Government Programs (Note 3)	$ 5,248,338	$ 5,162,105
The Manitoba Hydro-Electric Board	3,934,943	3,714,645
Other	1,402,313	1,436,982
Total	$ 10,585,594	$ 10,313,732

NOTE 3: Includes $399 million of cumulative redeemable retractable 9 1/4% preferred shares issued by Manitoba Properties Inc., which are guaranteed by the Province. Consolidation with the Provincial accounts would require Manitoba Properties Inc. debt to be reclassified as direct Province of Manitoba debt.

Province of Manitoba
Net Direct and Guaranteed Debt, by Purpose

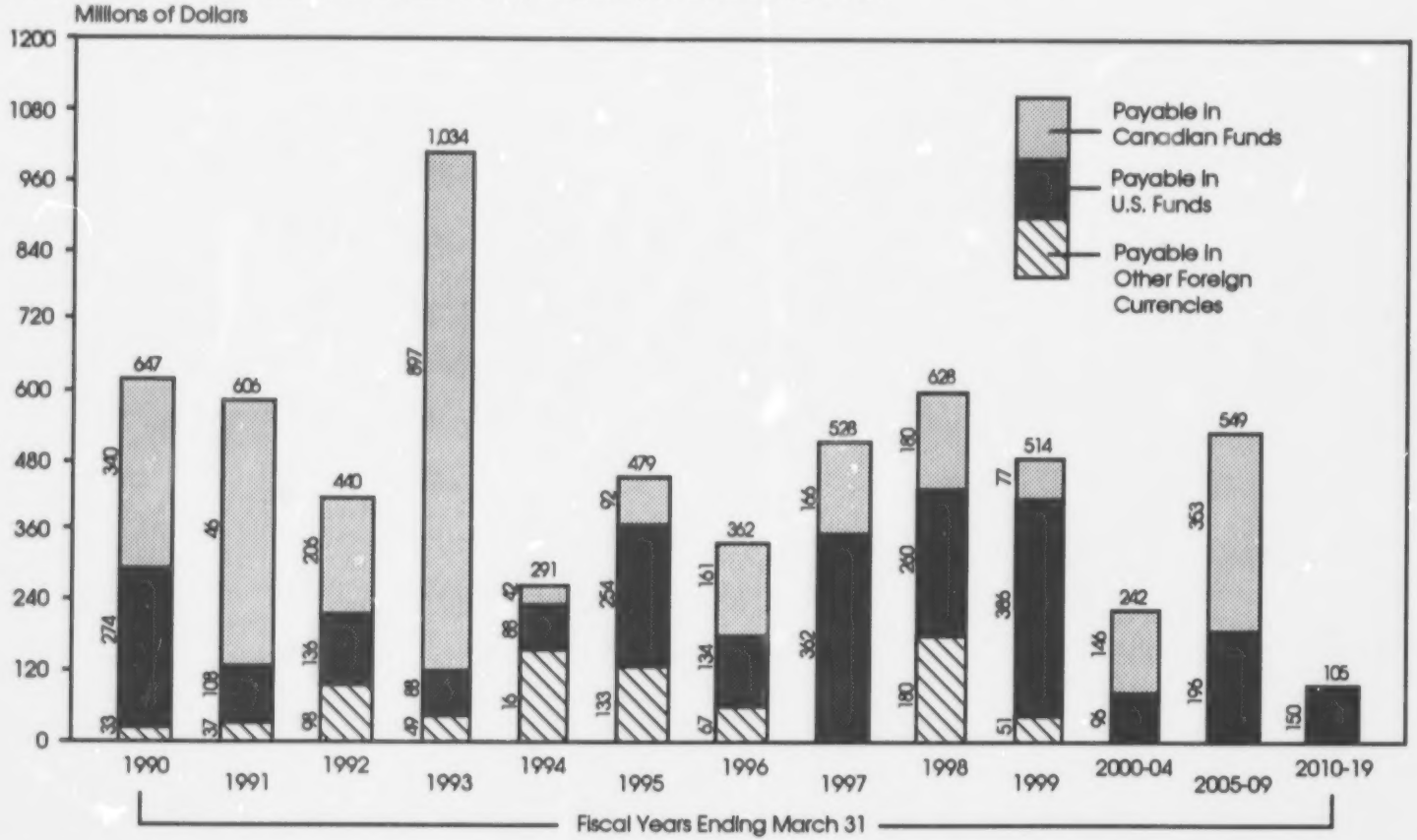


Note 1: The above chart indicates the Total Net Direct and Guaranteed Debt of the Province of Manitoba (after deducting accumulated Sinking Funds) using foreign exchange rates in existence on the dates reflected above.

Note 2: Includes as General Purpose Debt, $278 million in 1985 and $399 million in 1986, 1987, 1988 and 1989 of cumulative redeemable retractable 9 1/4% preferred shares issued by Manitoba Properties Inc., which are guaranteed by the Province.

Province of Manitoba Direct and Guaranteed Debt

Net Refunding Requirements by Fiscal Year By Currency as at March 31, 1989



Note 1: The above chart indicates the amount which the Province of Manitoba will have to borrow for the purpose of repaying Direct and Guaranteed Debt outstanding at March 31, 1989 (based on the Canadian dollar equivalent on the date of issue) after application of accumulated sinking funds.

Note 2: The Province of Manitoba has six retractable debenture issues and two extendable debenture issues outstanding at March 31, 1989. The maturity date of these issues has been assumed to be the maturity date occurring if the holders of the securities were to consider utilizing the related extendable or retractable options under present market conditions.

MANITOBA FINANCIAL STATISTICS, 1980/81 TO 1989/90

	1980/ 1981	1981/ 1982	1982/ 1983	1983/ 1984	1984/ 1985	1985/ 1986
			(Millions of Dollars)			
REVENUE						
Manitoba Collections	609.8	714.1	804.3	1,052.2	1,110.5	1,233.9
Income Taxes	524.6	629.2	685.3	707.1	716.5	776.2
Federal Transfers	834.0	837.5	919.4	1,037.9	1,097.6	1,106.5
Fiscal Stabilization	0.0	0.0	0.0	0.0	0.0	0.0
Total	1968.4	2,180.8	2,409.0	2,797.2	2,924.6	3,116.6
EXPENDITURE						
Program Expenditure	1979.0	2,317.9	2,681.8	2986.4	3,159.2	3,332.2
Public Debt Costs (Incl. MPI)	78.9	114.0	161.8	239.7	248.0	312.7
Total	2057.9	2,431.9	2,843.6	3,226.1	3,407.2	3,644.9
DEFICIT	89.5	251.0	434.6	428.9	482.5	528.3
NET DIRECT AND GUARANTEED DEBT						
General Purpose	1,063.5	1,435.7	1,857.2	2,512.0	3,144.1	3,860.5
Hydro	2,662.4	2,763.7	2,860.8	2,885.6	2,921.2	3,263.7
Other Debt	876.2	963.5	992.3	952.7	1,003.2	1,267.3
Total	4,602.1	5,162.9	5,710.3	6,350.3	7,068.5	8,391.5
ANNUAL CHANGE						
			(Per Cent Change)			
Manitoba Collections	-	17.1	12.6	30.8	5.5	11.1
Income Taxes	-	19.9	8.9	3.2	1.3	8.3
Federal Transfers	-	0.4	9.8	12.9	5.8	0.8
Total Revenue	-	10.8	10.5	16.1	4.6	6.6
Program Expenditure	-	17.1	15.7	11.4	5.8	5.5
Total Expenditure	-	18.2	16.9	13.5	5.6	7.0
Deficit	-	180.5	73.1	<1.3>	12.5	9.5
Net General Purpose Debt	-	35.0	29.4	35.3	25.2	22.8
Total Net Debt	-	12.2	10.6	11.2	11.3	18.7

Note: Totals may not add due to rounding
Note: Refer to Public Accounts of Manitoba for applicable statements on accounting policy

1986/ 1987	1987/ 1988	1988/ 1989b	1988/ 1989p	1989/ 1990b[1]	
		(Millions of Dollars)			
					REVENUE
1,346.2	1,569.7	1,713.9	1,743.1	1,828.2	Manitoba Collections
879.5	1,156.1	1,251.9	1,231.0	1,205.8	Income Taxes
1,160.9	1,313.0	1,398.8	1,567.2	1,594.6	Federal Transfers
0.0	0.0	0.0	<200.0>	50.0	Fiscal Stabilization
3,386.5	4,038.8	4,364.6	4,341.3	4,678.7	**Total**
					EXPENDITURE
3,535.1	3,848.0	4,015.5[2]	4,056.8	4,214.5[2]	Program Expenditure
410.5	490.4	545.0	436.6	551.6	Public Debt Costs (Incl. MPI)
3,945.6	4,338.4	4,560.5	4,493.4	4,766.1	**Total**
559.1	299.6	195.9	152.1	87.4	**DEFICIT**
					NET DIRECT AND GUARANTEED DEBT
4,621.0	5,162.1	-	5,248.3	5,028.4	General Purpose
3,417.5	3,714.6	-	3,934.9	3,981.5	Hydro
1,380.8	1,437.0	-	1,402.3	1,778.3	Other Debt
9,419.3	10,313.7	-	10,585.5	10,788.2	**Total**
		(Per Cent Change)			**ANNUAL CHANGE**
9.1	16.6	9.1	11.0	4.9	Manitoba Collections
13.3	31.4	8.4	6.6	<2.0>	Income Taxes
4.9	13.1	6.5	19.4	1.7	Federal Transfers
8.7	19.3	8.1	7.5	7.8	Total Revenue
6.1	8.9	4.4	5.4	3.9	Program Expenditure
8.2	10.0	5.1	3.6	6.1	Total Expenditure
5.8	<46.4>	<34.6>	<49.3>	<42.4>	Deficit
19.7	11.7	-	1.7	<4.2>	Net General Purpose Debt
12.2	9.5	-	2.6	1.9	Total Net Debt

p - Preliminary b - Budget

Note 1: 1989/90 percentage change is change from 1988/89 Preliminary
Note 2: Budgeted program expenditure for 1988/89 and 1989/90 is net of year-end lapse factor

... continued

(continued)

MANITOBA FINANCIAL STATISTICS, 1980/81 TO 1989/90

	1980/ 1981	1981/ 1982	1982/ 1983	1983/ 1984	1984/ 1985	1985/ 1986
			(Per Cent)			
PER CENT OF GDP						
Revenue	17.6	16.6	17.2	18.8	17.7	17.4
Expenditure	18.4	18.5	20.3	21.6	20.6	20.3
Deficit	0.8	1.9	3.1	2.9	2.9	2.9
Net General Purpose Debt	9.5	10.9	13.2	16.8	19.0	21.5
Total Net Debt	41.0	39.2	40.7	42.6	42.8	46.8
PER CENT OF REVENUE						
Manitoba Collections	31.0	32.7	33.4	37.6	38.0	39.6
Income Taxes	26.7	28.9	28.4	25.3	24.5	24.9
Federal Transfers	42.4	38.4	38.2	37.1	37.5	35.5
Fiscal Stabilization Fund	0.0	0.0	0.0	0.0	0.0	0.0
PER CENT OF EXPENDITURE						
Program Expenditure	96.2	95.6	95.0	93.7	92.7	91.4
Public Debt Costs (Incl. MPI)	3.8	4.7	5.7	7.4	7.3	8.6
Deficit	4.3	10.3	15.3	13.3	14.2	14.5
DOLLARS PER CAPITA			(Dollars)			
Revenue	1,921	2,125	2,331	2,675	2,772	2,929
Expenditure	2,008	2,370	2,752	3,085	3,229	3,426
Deficit	87	245	421	410	457	496
Net General Purpose Debt	1,038	1,399	1,797	2,402	2,980	3,628
Total Net Debt	4,491	5,031	5,526	6,073	6,699	7,887
Memorandum Items						
Population (000's)	1,025	1,026	1,033	1,046	1,055	1,064
GDP at market prices ($ Millions)	11,209	13,169	14,019	14,917	16,509	17,939

Note: Totals may not add due to rounding
Ratios computed using unrounded data

Source: Manitoba Department of Finance

1986/ 1987	1987/ 1988	1988/ 1989b	1988/ 1989p	1989/ 1990b	
		(Per Cent)			
					PER CENT OF GDP
18.0	20.2	20.2	20.1	20.2	Revenue
21.0	21.7	21.1	20.3	20.6	Expenditure
3.0	1.5	0.9	0.7	0.4	Deficit
24.6	25.8	-	24.2	21.7	Net General Purpose Debt
50.1	51.6	-	48.9	46.6	Total Net Debt
					PER CENT OF REVENUE
39.8	38.9	39.3	40.2	39.1	Manitoba Collections
26.0	28.6	28.7	28.4	25.8	Income Taxes
34.3	32.5	32.0	36.1	34.1	Federal Transfers
0.0	0.0	0.0	<4.6>	1.1	Fiscal Stabilization Fund
					PER CENT OF EXPENDITURE
89.6	88.7	88.0	90.3	88.4	Program Expenditure
10.4	11.3	12.0	9.7	11.6	Public Debt Costs (Incl. MPI)
14.2	6.9	4.3	3.4	1.8	Deficit
		(Dollars)			**DOLLARS PER CAPITA**
3,161	3,743	4,026	4,005	4,316	Revenue
3,683	4,021	4,207	4,145	4,397	Expenditure
522	278	181	140	81	Deficit
4,314	4,784	-	4,842	4,639	Net General Purpose Debt
8,793	9,559	-	9,765	9,952	Total Net Debt
					Memorandum Items
1,071	1,079	1 084	1,084	1,084	Population (000's)
18,807	19,983	21,649	21,649	23,130	GDP at market prices ($ Millions)

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Budget Paper C

THE FISCAL STABILIZATION FUND

THE FISCAL STABILIZATION FUND

Contents

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The Current Manitoba Situation 2

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Background

Provincial revenue can be subject to significant year-to-year volatility due to circumstances within or external to the Province.

- **Provincial circumstances:** Economic conditions in Manitoba can impact on growth in provincial own-source revenue. Currently, the high prices for metals are resulting in higher mining tax revenue. Other factors such as the drought can have significant impacts.
- **National circumstances:** Manitoba and six other provinces with fiscal capacity below the national average, receive equalization payments. In total, national equalization payments increase roughly in proportion to the growth of own-source revenue of provinces across Canada. Therefore, national economic conditions impact directly on Manitoba's revenue. In addition, when the equalization standard increases more rapidly than a province's own-source revenue, equalization payments increase further.
- **Prior-years adjustments**: A further complication with respect to revenue flows exists because revenue from federal sources—whether it is from the Income Tax Collection Agreements or from unconditional federal transfers for equalization or financing for health and post-secondary education—is calculated and paid on schedules which involve lengthy delays between events and recalculations. This results in significant overpayments or underpayments, which are offset in subsequent years through a process of adjustments of prior-years entitlements.
- **Special circumstances:** Occasionally there are one-time increases in revenue, for example, upon divestiture of Crown corporations.

In recent years, much of the unpredictability of Provincial revenue has occurred with respect to payments from the federal government.

In addition to revenue volatility, certain circumstances result in anomalous Provincial expenditure levels. Last year for example, the Manitoba Government spent over $36 million providing emergency drought relief and fighting forest fires. As well, financial market conditions can result in unanticipated fluctuations in debt service requirements. Last year, the Provincial public debt costs were more than $100 million below the budgeted levels, while disengaging provincial taxpayers from foreign exchange losses on Hydro added $64 million to last year's spending.

Consequences

When revenue growth is unusually high, deficits may be sharply reduced or even eliminated giving rise to pressures for program spending or tax cuts on the basis of a single year improvement. Too often, neither added program spending nor tax cuts can be sustained in the longer term.

On the other hand, when revenue falls below trend levels, deficits escalate sharply, resulting in ongoing and increasing interest cost burdens. As a result, the Government may come under pressure to restrain expenditure, more than may be appropriate for the economic conditions.

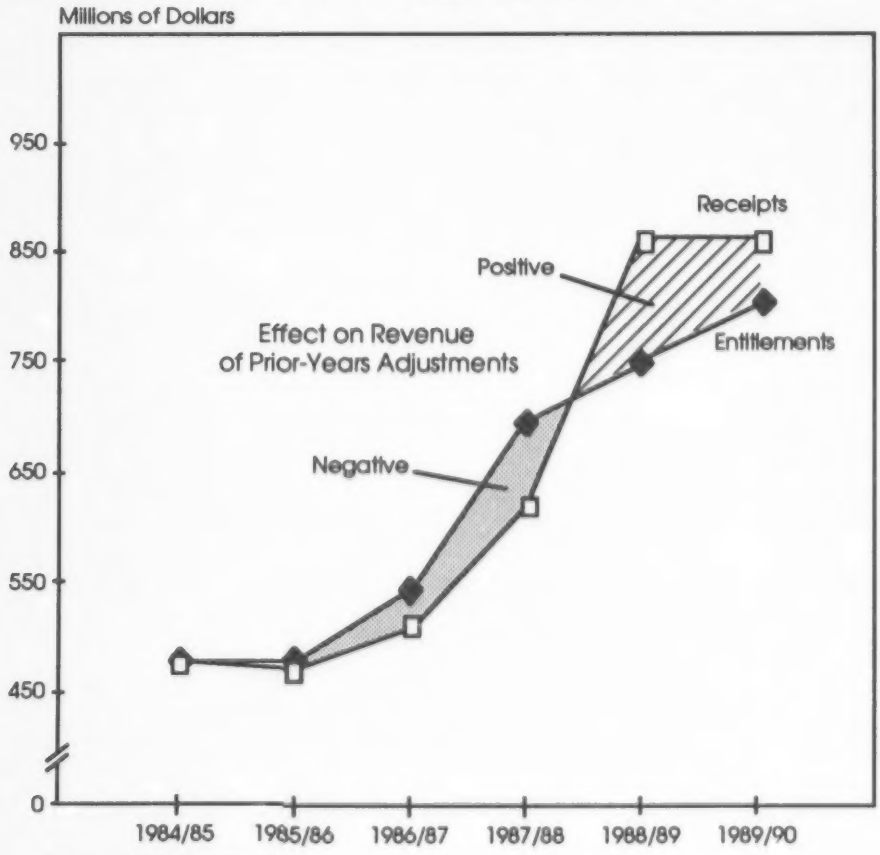
The Current Manitoba Situation

In 1988/89, there was exceptional growth in Manitoba's revenue, primarily from tax increases imposed by the former administration, mining taxes and equalization payments. A significant part of the latter pertained to prior-years adjustments. Revenue is currently estimated to have been $4.541 billion, that is, $502 million or 12.5% above the 1987/88 fiscal year. With the reduced expenditure levels, revenue exceeded expenditure and produced a $48 million surplus.

The increase in equalization payments in 1988/89 ($243 million) accounted for close to one-half of the total revenue increase. Of that increase, $111 million pertained to prior-years adjustments, as relative Provincial economic circumstances in 1987 and earlier years were factored into the calculations. A similar upward revision to 1988/89 entitlements occurred primarily based on the same factor from 1987 and prior years. Equalization entitlements and actual receipts, including prior-years adjustments, are outlined in the following chart.

Equalization Receipts and Entitlements, 1984/85 to 1989/90

Showing Effect on Revenue of Prior Years Adjustments



Source: Manitoba Finance

In 1989/90, based on current data, we anticipate continued growth in current-year entitlements for equalization, and smaller—but still positive—prior-years adjustments. However, current assessments also suggest that Manitoba was significantly overpaid with respect to personal and corporate income taxes for the 1988 tax year. Therefore, the budgeted revenue for 1989/90 from each of these sources, personal and corporate income taxes and equalization, contain estimates of prior-years adjustments. In total, these prior-years adjustments reduce revenue by close to $50 million.

The Proposal to Establish the Fiscal Stablization Fund

Long-term fiscal planning is essential to bringing fiscal responsibility to Government. The volatility in year-to-year revenue can mask underlying trends, risking pressures for short-term decisions which may be inappropriate for fiscal conditions and long-term fiscal objectives.

Given the exceptional revenue growth in Manitoba in 1988/89 and fiscal circumstances in 1989/90, the Government proposes to establish the Fiscal Stabilization Fund. The Fund will be established effective March 31, 1989, with $200 million from the exceptional revenue flows in 1988/89.

Earnings on Fund assets will accumulate in the Fund. In 1989/90, the Fund will receive the net proceeds from the sale of Manfor Ltd. A draw on the Fund is projected to offset the $50 million of negative prior-years adjustments currently within the Revenue Estimates. The balance in the Fund at March 31, 1990, is projected to increase by $47 million to $247 million.

The Fund will be used as a fiscal shock absorber, helping the Province avoid disruption to programs or major tax increases. Draws from the Fund may be made when revenue is constrained or there are exceptional expenditure requirements. Further exceptional revenue may be added to the Fund.

Draft legislation to establish the Fiscal Stabilization Fund is attached. This measure will be a significant step in establishing a more stable and responsible fiscal planning environment for the Province.

The Operation of the Fund

The following table illustrates the effect of the Fiscal Stabilization Fund on 1988/89 results and on the 1989/90 Budget Plan.

Government of Manitoba
Expenditure, Revenue and Deficits
1988/89 and 1989/90

	1988/89 Preliminary	1989/90 Budgeted
	($ Millions)	
Expenditure	4,493	4,766
Revenue		
Before Stabilization	4,541	4,629
After Stabilization	4,341	4,679
Deficit <Surplus>		
Before Stabilization	<48>	137
After Stabilization	152	87

The following table illustrates the balances in the Fund over the Budget period.

Fiscal Stabilization Fund
1988/89 and 1989/90

	1988/89	1989/90
	($ Millions)	
OPENING BALANCE	0	200
Transfers <to> / from General Revenue	200	<50>
Interest Earnings		20
Estimated net proceeds from sale of Manfor Ltd.		77
CLOSING BALANCE	200	247

DRAFT LEGISLATION

The Fiscal Stabilization Fund Act

(Assented to)

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Manitoba, enacts as follows:

Interpretation

1 In this Act,

"fund" means the Fiscal Stabilization Fund established in section 2.

"minister" means the Minister of Finance.

"revenue" means revenue as defined in The Financial Administration Act.

Fund established

2(1) The Fiscal Stabilization Fund is hereby established under the direction and control of the minister.

Purpose of fund

2(2) The purpose of the fund is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning.

Management of fund

2(3) The minister shall hold the fund in trust and shall manage the fund in accordance with the provisions of The Financial Administration Act.

Deposits in fund

3(1) Notwithstanding The Financial Administration Act, the minister may, with the approval of the Lieutenant Governor in Council, deposit in the fund any part of the revenue or other financial assets received in any fiscal year, commencing with the fiscal year ending on March 31, 1989.

Earnings of fund

3(2) The minister shall credit to the fund any earnings from investments of the fund.

Transfers out of the fund

4 The minister may, for the purpose mentioned in subsection 2(2), and with the approval of the Lieutenant Governor in Council, transfer to revenue of the Consolidated Fund all or any part of amounts standing to the credit of the fund.

No lapse

5 Notwithstanding any other Act or law, amounts standing to the credit of the fund do not lapse at the end of any fiscal year.

Fiscal year

6 The fiscal year of the fund shall be the period commencing on April 1 in one year and ending on March 31 in the next year.

Regulations

7 The Lieutenant Governor in Council may make any regulations that the Lieutenant Governor in Council considers necessary respecting the administration of the fund.

Audit

8 The accounts and transactions of the fund shall be audited annually by the Provincial Auditor.

Financial statements

9(1) The minister shall, annually, within four months of the end of the fiscal year, submit to the Lieutenant Governor in Council the audited financial statements of the fund for that fiscal year.

Tabling of statements in Assembly

9(2) The minister shall table in the Legislative Assembly a copy of the financial statements of the fund provided to the Lieutenant Governor in Council pursuant to subsection (1) forthwith if the Assembly is then in Session and, if it not then in Session, within 15 days of the commencement of the next ensuing Session.

C.C.S.M.

10 This Act may be cited as chapter F85 of the Continuing Consolidation of the Statutes of Manitoba.

Coming into force

11 This Act comes into force March 31, 1989.

Budget Paper D

TAXATION ADJUSTMENTS

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TAXATION ADJUSTMENTS

■ Personal Income Tax

(1989 Taxation Year: –$61.4 million)

Manitoba Tax Reduction Enhancement: Retroactive to January 1, 1989, the Manitoba Tax Reduction for dependents born in 1971 or later will be increased from $50 to $250, and the Manitoba Tax Reduction for disabled dependents born in 1970 or earlier will rise from $150 to $250. This measure will provide over $28 million in tax relief.

Income Tax Rate Reduction: Retroactive to January 1, 1989, the Manitoba Personal Income Tax rate is reduced by 2 points, from 54% of Basic Federal Tax, to 52%. This measure will provide nearly $33 million of personal income tax relief to all Manitoba taxpayers.

The benefits will be reflected in source deductions beginning in January 1990, and on 1989 income tax returns filed next spring.

The tables below illustrate the impact of these measures on selected taxpayers.

Effect of Budget Income Tax Cuts on a Family of Four

1989 Net Income	Pre-Budget Tax	Child Reduction	Rate Reduction	Total Reduction	Per Cent Saving
$ 16,000	$ 65	$ 53	$ 12	$ 65	100%
18,000	321	302	19	321	100
20,000	577	400	25	425	74
25,000	1,217	400	41	441	36
30,000	1,967	400	62	462	23
40,000	3,817	400	114	514	13
50,000	5,721	300	166	466	8
75,000	10,546	0	307	307	3
100,000	15,461	0	452	452	3

Married taxfiler, dependent spouse, 2 dependent children

For a family of four, the combined effects of the enhanced Manitoba Tax Reduction and basic rate reduction will completely eliminate Manitoba income tax liability—including the Net Income Tax—up to a net income of $18,000. The enhanced reduction will entirely offset such a family's Net Income Tax up to $32,500 of net income.

Effect of Budget Income Tax Cuts on Single and Senior Citizen Taxpayers

1989 Net Income	SINGLE Pre-Budget Tax	SINGLE Tax Cut	SINGLE Per Cent Saving	SENIOR Pre-Budget Tax	SENIOR Tax Cut	SENIOR Per Cent Saving
$ 10,000	$ 299	$ 12	4%	$ –	$ –	–%
12,500	619	20	3	–	–	–
15,000	940	29	3	328	16	5
17,500	1,260	37	3	657	24	4
25,000	2,150	61	3	1,646	50	3
30,000	2,802	82	3	2,411	71	3
50,000	6,407	185	3	6,069	75	3
100,000	16,147	472	3	15,809	461	3

Along with other provinces, Manitoba has proposed an alternative to the current taxation arrangements with the federal government. The proposal would involve applying provincial tax rates directly on taxable income in much the same way as federal taxes are calculated, as an alternative to the Net Income Tax and Net Income Surtax. Such a system would preserve the benefits of the unified income tax system in place now.

- Taxpayers would continue to file one income tax return and deal with a single income tax administration.
- Taxpayers would continue to calculate their income in the same way in all participating provinces, and to have access to the same basic deductions and credits.

Provinces would have sufficient flexibility to tailor their income tax legislation to Provincial circumstances. Flexibility could be achieved without the complex and bewildering assortment of basic rates, surtaxes, and flat taxes presently in place in many provinces.

Provinces are still waiting for a federal response.

The income tax changes will be administered by Revenue Canada. Inquiries may be directed to:

Federal-Provincial Relations and Research Division
Department of Finance
203-333 Broadway Avenue
Winnipeg, Manitoba
R3C 0S9
Telephone: (204) 945-3757

■ Payroll Tax

(1989/90 Revenue Impact: –$3.8 million)

Employers with annual payrolls up to and including $600,000 (up from $300,000) will be exempt from the Levy for Health and Post-Secondary Education, effective January 1, 1990. Employers with payrolls between $600,000 and $1,200,000 will pay the tax at a reduced rate.

The effects of the new exemption level on payroll taxes paid by employers are illustrated below:

Effect of Expanded Payroll Tax Exemption

	Tax Payable		
Payroll	Previous Provisions	New Provisions	Saving
$ 600,000	$ 13,500	$ 0	$ 13,500
800,000	18,000	9,000	9,000
1,000,000	22,500	18,000	4,500
1,200,000	27,000	27,000	0

Of the 43,000 Manitoba employers on the payroll tax rolls, 3,900 presently pay the tax. The increased exemption will reduce the number of employers paying the tax by 36%, to 2,500. Of those employers, 880 will pay the tax at a lower rate. The remaining 1,620 employers, or 3.8% of all Manitoba employers, will continue to pay at the full 2.25% rate.

The full-year revenue reduction associated with these changes is $23.6 million.

Inquiries relating to the payroll tax should be directed to:

Health and Post-Secondary Education Tax Branch
Department of Finance
Room 300, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–3761

■ Tobacco Tax

(1989/90 Revenue Impact: +$14.0 million)

The tobacco tax rate will be increased 1.0¢ to 6.5¢ per cigarette.

The tax rate on fine-cut tobacco will be increased from 1.9¢ per gram to 4.3¢ per gram. This change will bring the rate on fine-cut tobacco to two-thirds of that applied to cigarettes, the same ratio established by the 1989 federal Budget for the federal tobacco tax. In view of the adverse health consequences associated with the consumption of both products, a reduced differential is appropriate.

The tax rate on pre-portioned tobacco sticks will be increased to an amount equivalent to the tax on cigarettes. The equivalent tax treatment is intended to protect tobacco tax revenue.

These changes take effect July 9, 1989.
An estimated $21.0 million will be raised in a full year through these measures.

Inquiries regarding tobacco taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–3297

■ Fuel Taxes

(1989/90 Revenue Impact: +$8.0 million)

The general gasoline tax rate will increase 1.0¢ per litre to 9.0¢ per litre. At the new rate, Manitoba's rate is fifth lowest among provinces.

The preference for gasohol produced in Manitoba will be increased from 2.5¢ per litre to 3.5¢ per litre. The use of gasohol promotes energy self-reliance because the alcohol component is locally produced. It is also an environmentally cleaner fuel produced from a renewable resource. Alcohol is a good substitute for lead as an octane booster in gasoline, and yields no toxic by-products when burned.

Farmers and fishermen continue to receive full fuel tax exemptions.

As an additional measure of assistance to farmers, for 1989 and subsequent years aerial sprayers may apply for refunds of the aviation fuel tax of 5.8¢ per litre paid on fuel used while spraying farm crops in Manitoba.

The tax on motive fuel for off-highway use is increased 2.4¢ to 9.9¢ per litre, the same as for on-highway use. This treatment, now in force in six other provinces, will simplify storage requirements for the construction industry and reduce potential abuse.
These changes take effect September 5, 1989.

The full-year net revenue increase associated with these changes is $14.4 million.

Inquiries regarding fuel taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–3288

■ Land Transfer Tax Legislation

(1989/90 Revenue Impact: Nil)

As announced on February 16, 1989, legislation will be introduced to prevent tax avoidance transactions under the Land Transfer Tax. The Land Transfer Tax provides a graduated scale of tax, as well as a basic deduction of $30,000 from the fair market value of property transferred. By transferring a number of "undivided" interests in a property, rather than a single interest in the land as a whole, tax could be reduced or avoided by claiming the basic deduction against each interest.

The amendment will be retroactive to February 16, 1989, when the intention to stop these transactions was announced, to apply the tax proportionally in such cases.

■ Retail Sales Tax

(1989/90 Revenue Impact: –$0.3 million)

The sales tax applied to all telephone services purchased by Treaty Indians and Bands with respect to telephones situated on reserves will be removed, effective July 1, 1989. This measure parallels the general sales tax exemption for on-reserve purchases.

The current 12% sales tax rate applied to imported beer will be reduced to 7%, the same rate as that for domestic beer. The provision of comparable tax treatment for domestic and imported beer respects a 1988 ruling by The General Agreement on Trade and Tariffs. This change takes effect August 1, 1989.

The full-year revenue reduction associated with these changes is $0.4 million.

Inquiries regarding the sales tax should be directed to:

Retail Sales Tax Branch
Department of Finance
Room 115, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–6444 in Winnipeg
1–800–782–0318 outside Winnipeg (toll free)

■ Mining Tax

(1989/90 Revenue Impact: +$13.0 million)

The 1988 Budget Address indicated the Government's intention to solicit the co-operation of the mining industry to resolve the complex problem of allocation of provincial income tax.

The mining industry has made a commitment to resolve the income tax allocation problem in the near future.

As an interim measure, a temporary tax of 1.5% will be levied on mining profits, for this year, or a shorter period of time should a solution be achieved before December 31, 1989.

Inquiries relating to mining taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P3
Telephone: (204) 945–3288

■ Other Measures

(1989/90 Revenue Impact: +$1.0 million)

Water power rental rates will be increased by 10%, or $0.94 per horsepower-year of output to $9.90 per horsepower-year. Installed capacity charges will be increased from $3.94 per installed horsepower to $4.30 per installed horsepower. The new charges will come into effect September 1, 1989.

The full-year revenue increase associated with these changes is $3.3 million.

■ Environmental Protection Tax

(1989/90 Revenue Impact: +$0.1 million)

As a first initiative within the Environmental Protection Tax framework, the following rates of tax per alcoholic beverage container for which a deposit/return system is not in place will be applied:

Alcoholic Beverage Containers	Tax
Bottles less than 750 ml	5¢
Bottles 750 ml or more	10¢
Beer bottles	10¢
Aluminum and other cans	5¢

The tax is effective August 1, 1989.

A discussion paper will be released by the Minister of Environment later this summer.

Summary of 1989 Tax Changes

	1989/90	Full Year
	($ Millions)	
Tax Cuts		
Personal Income Tax	70.4*	61.4
Payroll Tax	3.8	23.6
Retail Sales Tax	0.3	0.4
Total Tax Cuts	74.5	85.4
Tax Increases		
Tobacco Tax	14.0	21.0
Fuel Tax	8.0	14.4
Water Power Rentals	1.0	3.3
Mining Tax	13.0	–
Environmental Protection Tax	0.1	–
Total Tax Increases	36.1	38.7
Net Tax Reduction	**38.4**	**46.7**

* This includes:

- $61.4 million of 1989 income tax cuts claimed when Manitobans file their 1989 tax returns next spring, and
- $9.0 million of source deduction savings from January to March 1990.